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ANNUAL REPORTS

FOR THE YEAR 1947-1948

**COMPLETE TEXT OF REPORTS PRESENTED AT THE
SIXTY-FIRST ANNUAL MEETING, AMERICAN INSTITUTE
OF ACCOUNTANTS • CHICAGO, SEPTEMBER 19-23**

**AMERICAN INSTITUTE OF ACCOUNTANTS
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I.

REPORT OF THE COUNCIL

I. REPORT OF THE COUNCIL

TO THE MEMBERS OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Council has held the customary three meetings since submission of its last report: a brief organization meeting at Miami, November 6, 1947, a four-day meeting at Asheville, North Carolina, in May, 1948, and a one-day meeting in Chicago, September 20th. The minute book of the council is available for inspection of members. Most of the activities of the Institute during the past fiscal year have already been reported to members through *The Certified Public Accountant* and the committee reports submitted at the May session of the council, which were reprinted and distributed in pamphlet form. The committee reports submitted at the council meeting of September 20th, will be reprinted and distributed in the near future.

This report is confined to a general summary of the more important events of the year, and a brief outline of other activities.

Tax Practice

Relations with the legal profession in the field of tax practice have been a matter of major concern to the Institute in the past year. The Institute was largely responsible for preventing passage of two bills in Congress which would have restricted the activities of non-lawyers to practice before federal agencies, and before the Tax Court. A tremendous amount of time and energy was expended in this effort by officers, committees and staff. Counsel's fees of \$12,050 were incurred in this effort. It is already practically certain that bills to accomplish the same purposes will be reintroduced at session of the 81st Congress. Council has authorized the officers and appropriate committees of the Institute to continue opposition to this proposed legislation in whole or in part.

The decision of the New York Supreme

Court in the *Bercu* case, holding in general that a certified public accountant might properly give tax advice to persons other than his regular clients, was reversed in the Appellate Division. Council has appropriated from the contingency fund \$7,500 toward legal fees incurred in proceedings before the Appellate Division. This matter is now being appealed in the Court of Appeals of New York State. Council of the Institute has approved the filing of a brief as friend of the court on behalf of the Institute, and has authorized close cooperation with the New York State Society of CPAs in supporting the appeal.

The Institute has offered its cooperation to the Minnesota Society of Certified Public Accountants in its effort to prevent a decision unfavorable to the accounting profession in the *Conway* case, in which a noncertified accountant is accused of the unauthorized practice of law in having given tax advice in conjunction with the preparation of a return.

The McMahon bill, which would have restricted the preparation of tax returns to lawyers, certified public accountants, and other enrolled agents, was neither sponsored nor supported by the Institute. However, Congressman McMahon has indicated that he will reintroduce the bill with broader provisions, and his new bill will doubtless focus attention on the question whether the preparation of tax returns for a fee should be limited to persons subject to regulation by the Treasury Department.

The Institute cooperated with the Kentucky Society of Certified Public Accountants in consideration of an Attorney General's ruling that the preparation of tax returns constituted the practice of law. The new Attorney General of Kentucky has indicated that the ruling has no legal effect, and no attempt has been made to enforce it.

All these matters have introduced un-

certainty and confusion in the field of tax practice. The National Conference of Lawyers and Certified Public Accountants has been wholly inactive for the simple reason that there could be no hope of settling issues around the conference table which had already been publicly thrown into controversy before the courts and the Congress. Representatives of the Institute have conferred with representatives of the Treasury Department to consider the extent to which it may be possible for the Treasury to take the lead in bringing order out of what threatens to become a chaotic condition in the field of tax practice. Conferences with the Treasury and representatives of the American Bar Association are expected to occur in the coming months.

State Legislation

The council meeting at Asheville last May was the scene of intensive debate on regulatory public accounting legislation. A resolution was proposed to the effect that the council reverse its earlier approval on regulatory legislation and instead adopt a policy under which there would be simultaneous announcement of a preference for permissive type legislation and the launching of a program to protect the CPA certificate against attacks and advance its prestige, and to achieve a united profession of certified public accountants. After several hours of debate, the resolution was tabled. However, at its meeting on September 20th, the council adopted a resolution abandoning its previously established approval of regulatory legislation and adopting a neutral position.

Officials of the Institute have discussed legislative problems with officers and members of many state societies. Information useful in combating adverse legislation has been placed in the hands of state society legislative committees. The public information department has prepared a legislative kit, which outlines procedures which may be followed at every step of a legislative battle. This is being mailed to all interested state society officials.

Public Information

The profession's legislative problems, and its skirmishes with the bar association committees of unauthorized practice, and with groups of noncertified public accountants, have focused attention on the need for a wider understanding of the certified public accountant and what he stands for. Last fall council authorized a greatly enlarged public information program. Last November Charles E. Noyes was engaged as director of public information, and Stephen E. Fitzgerald was engaged as public information counsel. With the committee on public information and the executive director, these men have prepared an ambitious public information program for certified public accountants, which has been printed and distributed to all the state societies. This program provides for the use of every available means of communication, at both the national and local levels, for the transmission of information about the accounting profession, which is of legitimate interest to the public. A good start has been made in putting the program into effect. Pattern speeches prepared at headquarters have been given by members before numerous business groups, news publicity about the accounting profession has been voluminous, magazine articles have been published, radio appearances by members have been arranged, public information pamphlets have been widely distributed, and institutional advertising prepared by the Institute has been utilized by some state societies. Close coordination of the activities of the state societies and the individual members of the Institute in the public information area is an integral part of the program. In the present fiscal year, members of the Institute will become even more conscious of greatly increased efforts of the Institute in this field.

State Society Service

Legislation and public information are closely linked. The Institute's public information department is the focal point for both activities. Experience has shown

that these are the two subjects of greatest immediate interest to the state societies. Accordingly, the council at its May meeting approved the consolidation of the state society service department with the public information department, under the direction of Mr. Noyes, in the interest of efficiency and economy. The procedures of the department have been streamlined, with the object of providing maximum service at points where it is most needed and desired, together with prompt clearance of all information of mutual interest to state societies and the Institute. Through the state society service department, all the resources of the Institute are made available to the several committees of the state organizations.

Two regional conferences have been organized during the past year by groups of state societies, with the close co-operation of the Institute's staff. The Middle Atlantic States Accounting Conference was held at Myrtle Beach, South Carolina, in July. The Mountain States Accounting Conference will be held at Phoenix, Arizona, in November. A committee, appointed to reconsider regional groupings and general patterns of procedure governing the arrangement of regional conferences, made recommendations last spring which were approved by the council and have been submitted to the state societies concerned.

Research and Technical Pronouncements

The committees on accounting and auditing procedure, with the assistance of the research department under the direction of Carman G. Blough, have produced twelve publications during the past fiscal year, of which the members have all had notice.

Questions related to the reporting of so-called economic income in a period of inflation, which center largely in the accounting for inventories and depreciation, have been considered intensively. In view of the wide public interest in these questions, the executive committee, with the concurrence of the committee on accounting procedure, authorized the presi-

dent to send a letter to several hundred businessmen, bankers, economists, statisticians, teachers, and others interested, to ascertain the extent of informed opinion in favor of a change in accounting methods to recognize inflated prices. The response to the president's letter was excellent, and the replies have been of great assistance to the committee on accounting procedure. Council believes that the Institute has recognized its heavy responsibilities in this question, and has maintained a position of leadership in its consideration. An early pronouncement on the subject by the committee on accounting procedure is expected.

Meanwhile, the study of business income, conducted under grants from the Rockefeller Foundation and the American Institute of Accountants, has been continued under the chairmanship of Percival F. Brundage, with George O. May as research consultant, in an effort to develop the most useful concept of business income acceptable from the standpoint of law, economics, accounting, and monetary theory.

The committee on auditing procedure recommended that Statement on Auditing Procedure, No. 23, "Clarification of Accountant's Reports," be placed before the 1948 annual meeting for adoption by the membership of the Institute. In view of the controversial nature of this bulletin, which had stimulated discussions at state society meetings throughout the country, the council believed that more time was needed for discussion of the subject, and resolved that submission of the bulletin for membership approval be deferred until the 1949 annual meeting.

On recommendation of the committee on auditing procedure, council adopted the following resolution for referral to the membership at the 1948 annual meeting:

"WHEREAS, The committee on auditing procedure of the American Institute of Accountants in a special report issued in October, 1947, among other things has stated that:

"While it is not practicable, because of the wide variance of conditions en-

countered, to issue anything like an "all-purpose" program of auditing procedures it is possible to formulate a pronouncement with regard to the auditing standards requiring observance by the accountant in his judgment exercise as to procedures selected and the extent of the application of such procedures through selective testing.' (Paragraph 6, page 7)

and that:

"Auditing standards may be said to be differentiated from auditing procedures in that the latter relate to acts to be performed, whereas the former deal with measures of the quality of the performance of those acts, and the objectives to be attained in the employment of the procedures undertaken. Auditing standards as thus distinct from auditing procedures concern themselves not only with the auditor's professional qualities but also with his judgment exercise in the conduct of his examination and in his reporting thereon.' (Part of first paragraph, page 9)

and has presented the following brief summary of the meaning of generally accepted auditing standards (page 11):

"General Standards—

1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.

2. In all matters relating to the assignment an independence in mental attitude is to be maintained by the auditor or auditors.

3. Due professional care is to be exercised in the performance of the examination and the preparation of the report.

"Standards of Field Work—

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.

2. There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.

3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opin-

ion regarding the financial statements under examination.

"Standards of Reporting—

1. The report shall state whether the financial statements are presented in accordance with generally accepted principles of accounting.

2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.

3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report."

"Now THEREFORE BE IT Resolved, That:

- (a) The foregoing excerpts from the committee's report are hereby approved and adopted,
- (b) The use of 'Generally accepted auditing standards' in the reports or certificates of independent auditors shall be deemed to refer to the standards or principles set forth in the foregoing summary, and
- (c) The references on pages 10 and 12 of Extensions of Auditing Procedure to the Institute's 1936 bulletin *Examination of Financial Statements* are no longer applicable.

"BE IT FURTHER Resolved, That the Council of the American Institute of Accountants recommends the adoption of the foregoing resolution by the membership of the Institute at its next annual meeting."

The committee on auditing procedure has prepared recommendations for changes in the phraseology of the Standard Short Form of Auditor's Report, which will be published shortly.

Council resolved that a special committee be appointed to consider how the needs of small businesses and bankers, created by the obsolescence of sections of the pamphlet *Examination of Financial Statements* could be met. This committee has recommended the substitution, for *Examination of Financial Statements*, of a new pamphlet, under some such title as "What Is an Audit by a Certified Public Accountant," designed to explain

to persons other than accountants application of auditing standards and procedures, particularly to small businesses.

CPA Examinations

All but two of the states and territories of the United States have adopted the uniform CPA examination prepared by the board of examiners of the Institute. The quality of the examination questions and problems is believed to have improved steadily, and seems to meet in general with satisfaction. Most of the state boards which adopt the examination submit their papers for grading by the Institute. The increased number of candidates at the examination since the war has greatly increased the magnitude of the grading problem. The larger the staff of graders, the greater the difficulty of maintaining a uniform standard of marking, and therefore the greater the amount of time that must be spent in supervision of individual graders in review of their work. The consequence is that the cost of conducting this service has increased in more than direct proportion to the increase in number of candidates. The Institute this year incurred a net loss of \$36,500 in providing the uniform examination and grading service. It has, therefore, been necessary to increase the fees to state boards, but even the additional revenues expected will fall far short of meeting the cost. Efforts are being made to effect economies, but it may be necessary for the Institute to appeal for contributions from the membership to finance this work.

Professional Ethics

The newly constituted trial board was elected and organized at the May meeting of council. Frederick H. Hurdman is chairman. The first session of the trial board is scheduled for September 23rd, to hear a complaint filed by the committee on professional ethics.

The committee has considered 13 complaints, and has answered 35 inquiries during the year. It has recommended a change in Rule No. 15, to read:

"A member of the American Insti-

tute of Accountants, engaged in an occupation in which he renders services of a type commonly rendered by public accountants, must observe the by-laws and rules of professional conduct of the Institute in the conduct of that occupation."

The council has approved this change for submission to the membership.

Accounting Education

The committee on education has outlined an ambitious program of activity by which the Institute could advance accounting education in the schools and colleges, promote staff training, and provide adult education for members of the profession.

The committee on selection of personnel has carried on the testing program at both collegiate and professional levels. The \$80,000 of contributions for this project have now been almost entirely expended. Council has approved grants of \$10,000 a year for the three fiscal years 1947 to 1950 for the continuation of this work, in the hope that it may become self-supporting by that time.

The committee on placements has studied the needs of the profession for organized facilities for the recruiting and placement of college graduates as members of public accounting staffs.

The successful prosecution of all this work in education, selection, and placement of accounting personnel requires the help of a full-time education director and competent assistants as members of the headquarters' staff. The post of educational director is now vacant. Council authorized the executive committee to fill this position if finances permit. In view of the importance of the educational program, the executive committee has authorized the executive director to seek a suitable incumbent for the position, with the understanding that supplementary financing would be undertaken, if necessary.

Taxation

Recommendations for amendment of the income-tax laws were filed with Con-

gress by the committee on federal taxation last fall, and reprints were widely circulated and noticed in the public press. The committee has also taken an active part in consideration of legislative and policy problems arising out of controversies with bar association committees over the rights of certified public accountants in the field of tax practice.

Publications

The circulation of *The Journal of Accountancy* has increased from about 42,000 to about 51,000, and advertising volume from \$62,065 to \$85,385. The membership bulletin, *The Certified Public Accountant*, has been published monthly. The 1947 *Year Book* appeared late in the spring. Due to the increase in the cost of producing this book, and the delays in printing, the council resolved that henceforth it be published at intervals of twenty-four months, but that lists of officers and committees, and copies of the by-laws and rules of professional conduct, be published each fall immediately after the annual meeting, and that reports of committees be published in pamphlet form following each meeting of the council. New volumes of examination questions and unofficial answers have been published during the current year. A new edition of the *Accountants' Index* will be produced this fall.

By-laws

Several amendments to the by-laws, approved by the council, have been submitted by the committee on by-laws in the official notice of the annual meeting, and will be presented for vote of the members present at the annual meeting. The purposes of these amendments are, one, to discontinue the Advisory Council of State Society Presidents in view of the fact that the state society presidents who are members of the Institute are now members of the Institute's council itself; two, to bring various sections of the by-laws into conformity with the amendments creating a trial board separate from the council, adopted January 20, 1948; and,

three, to increase the number of vice presidents of the Institute from two to four.

An additional proposal for amendment of Article XV has been submitted independently over the signatures of 56 members of the Institute, and has been included in the official notice of the annual meeting. This amendment would eliminate proxy voting at annual meetings on proposals to amend the by-laws. It would reduce the present requirement for approval of an amendment to the by-laws from a two-thirds vote to a majority vote of the members present at an annual meeting. It includes a new provision that in the event any proposal to amend the by-laws is signed by more than ten per cent of the membership, such a proposal shall be submitted to the membership for a vote by mail without first having received the approval of the members present at an annual meeting.

The council, by resolution at its meeting September 20, 1948, resolved that it disapproved this last mentioned amendment. This action of the council was based on the argument that members unable to attend an annual meeting should not be deprived of the right to vote by proxy for or against a proposal to amend the by-laws, that no change in the fundamental policies of the Institute should be approved for mail ballot by a bare majority, and that no such change should be made without the opportunity for debate on the floor of an annual meeting.

Membership

The membership of the Institute increased from 10,954 to 12,241 in the past fiscal year. 1526 new members were admitted, 43 were reinstated and there were 276 losses from deaths, resignations or failure to pay dues. The processing of such a large volume of new applications places a heavy burden on the board of examiners, which is also responsible for the administration of the uniform CPA examination. The board has recommended that the by-laws be amended to provide for an admissions committee, separate from the board, in order that

the latter may be free to devote its entire attention to the examinations. Council has approved this recommendation, and recommends that amendments which have been prepared to accomplish this purpose be submitted to the membership at this annual meeting, if a majority of the members present in person consent to the introduction of this proposal, which has not been included in the official notice of the annual meeting.

International Associates

The council at its May meeting approved procedures drafted by a special committee to govern the consideration of applications for admission of international associates of the Institute, as provided in the by-law amendment adopted last year.

Finances

The report of the auditors indicates the financial position and results of operation of the Institute for the past year.

Staff

The permanent staff of the Institute on August 31, 1948, was 77, including several positions authorized but unfilled. In addition, the Institute retains legal counsel and public relations counsel on an annual retainer, and employs a staff of approximately 50 accountants to grade examination papers. This staff works about four months a year on a per diem basis.

The increase in the size of the headquarters' organization has naturally added to the administrative problem and seemed to the council to indicate need for a further division of responsibility within the staff. Accordingly, at the May meeting, the council conferred on John L. Carey the title of executive director, and on H. T. Winton the title of administrative secretary. With this change of titles occurred a rearrangement of duties and responsibilities, and authorization of additional staff assistance which promise to facilitate efficient management of headquarters' operations.

During the year the council has increased retirement benefits for employees under the American Institute Pension Plan, which was introduced on a minimum basis five years ago. Under the amended plan, the annual retirement benefits will amount to about one per cent of annual pay for each year of eligible service, ignoring the excess over \$20,000, thirty-five years being the maximum limit of eligible service, with a minimum benefit of \$240 per annum. This is believed to be a modest provision in comparison with similar plans in industrial or financial organizations. Employees contribute toward premiums on a fixed scale.

The pension plan, it is believed, will be of benefit to the Institute in encouraging continuity of service on the part of the staff personnel, and in providing in advance for the obligation to take care of employees of advanced age.

Special Projects

Time does not permit a detailed recital of all activities of the year. Much useful work has been done by committees and staff in the following fields:

- Library and Bureau of Information
- Accountants' Liability and Insurance
- American Institute Group Life Insurance Plan
- American Institute Benevolent Fund
- Federal Government Accounting
- Public Utility Accounting
- Social Security
- Bankruptcy
- Cooperatives
- Wages and Hours
- History
- Natural Business Year

Cooperation with Other Organizations

Neither the accounting profession nor the Institute can exist in a vacuum. Its relations with the society in which it lives are of the utmost importance. One of its major tasks is to maintain communication with other groups which have common interests with certified public accountants at one point or another. Dur-

ing the past year appropriate committees and the staff have had conferences or correspondence with representatives of the following:

Robert Morris Associates
National Association of Credit Men
American Bar Association
National Association of Manufacturers
New York Stock Exchange
Controllers Institute of America
National Association of Cost Accountants
American Accounting Association
Institute of Internal Auditors
Association of CPA Examiners
Bureau of Economic Research
American Association of Collegiate Schools of Business
New York Society of Security Analysts
Various societies of professional accountants in many foreign countries

Conclusion

This report of council has been limited to the matters which have been deemed

of particular importance to convey to the members as an accounting for the council's stewardship. The reports of the numerous and competent, hardworking committees give some indication of the vast amount of work that is performed, and this report of council would not be really complete unless it is supplemented by a careful reading of the reports of the committees when they are published. The staff activities, the publications, and volume of business, measured both in man-hours and dollars, is increasing, and the profession is to be congratulated on the quality of volunteer services which the members contribute to the furtherance of its purposes.

Respectfully submitted,

EDWARD B. WILCOX, *Chairman*
HARRY M. PREVO
LINCOLN G. KELLY

September 20, 1948.

II.

**REPORT OF THE
EXECUTIVE DIRECTOR**

REPORT OF THE EXECUTIVE DIRECTOR

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: A professional association like the American Institute of Accountants must display a versatility entirely beyond the powers of an individual. While the Institute cannot be all things to all men, it must be a great many things to a great many men. It must speak with a voice of authority on major policy questions related to accounting, auditing, and taxation, in the highest councils of the government, and of the business and financial community. At the same time it must not forget its obligation to help in the solution of the day-to-day accounting problems of small business. It must be uncompromising in its devotion to high professional standards, but it must not give excuse for the charge that these standards are kept unnecessarily high to bar competition. The Institute must be ready to cooperate with any outside bodies or government agencies which have a legitimate interest in the activities of the accounting profession. However, it cannot carry cooperation to the point of making concessions which would be unwelcome even to a minority of its members. It must conduct itself with enough dignity and formality to earn the respect of the entire community, but it must not lose the human touch to such an extent that it comes to be regarded, even by its own members, as a cold and soulless institution. It must furnish enough direct, practical service to its members (whose needs and interests are widely divergent) to satisfy them that they get something in return for their dues. But it cannot become so preoccupied with responses to demands for individual service that it falters in the effort to solve those broad problems which are of prime importance to the profession as a whole, though they may be of no immediate practical concern to any member. It must protect the interests and rights of its members, but it must not be suspected of attempting

to secure privileges at the expense of the public interest.

In a word, the Institute must see the whole forest and all the trees at one and the same time.

In all its varied activities, the Institute is expected to be infallible. An association acting as representative and spokesman for a profession which prides itself on accuracy cannot afford to make mistakes.

Membership Participation

No society could seriously undertake all these obligations, unless it could count on the continued and active participation in its affairs of large numbers of its ablest members. This advantage the Institute has always enjoyed, and this is the principal reason for its remarkable growth and progress.

497 members of the Institute have contributed to the Institute's work this year as officers and members of the council and committees. Their names read like a who's who in accountancy, and fully support the claim that the Institute has received its direction and support from among the ablest practitioners in the accounting profession. Many other members not holding official positions have made important contributions by writing for *The Journal of Accountancy*, by speaking at professional meetings, or by submitting helpful suggestions to committees or to the staff.

Staff Work

In addition to active membership participation a successful association must have good organization, to get its work done promptly, effectively, and economically. The daily work necessary to develop and maintain an adequate organization, and to meet the multiplicity of demands on it, is a burden which could not reasonably be assumed by voluntary officers and committees, who serve without compensation and simultaneously con-

duct their own accounting practices. This is the reason for the existence of a full-time permanent staff. The Institute's staff is headed by specialists in nearly all the different types of work which must be done to accomplish the objectives laid down by the members of the profession who direct the affairs of the organization. This work falls into several broad categories: general administration, membership relations, state society relations, meetings and conferences, public information, research, CPA examinations, education, recruiting and selection of personnel, publications, legislation, ethics, library, cooperation with other organizations, and special projects.

The principal vacancy in the staff is the lack of an educational director and assistants to undertake the intensive work necessary to accomplish the objectives of the board of examiners in administering the uniform CPA examination with maximum effectiveness, and to carry out the plans of the committees on education, selection of personnel, and placement. Believing that the work to be done in these important areas should not be unduly delayed, the executive committee has authorized the employment of an educational director and qualified staff assistants without delay, even though supplementary financing may be necessary to defray the cost because of the inability of the budget to absorb the additional expense at the present time.

An office manager, employed during the past year with the approval of the executive committee, has resigned after reaching agreement with the executive director that the Institute's staff organization, while too large to operate efficiently without methodical supervision, is still too small to warrant the full-time services of a specialist in personnel and office management. A suggested solution is to place more responsibility on department heads for personnel administration within the framework of uniform policies, and to employ an assistant secretary, who would be capable of assuming responsibility for office management, but would also be able to assume other administrative duties.

The committee on publication has recommended the employment of an additional editorial assistant, in view of the increased circulation of *The Journal of Accountancy*, in order to permit further improvement of editorial content, and proper attention to the varied needs and interests of the approximately 50,000 readers of the magazine. An additional advertising salesman has recently been employed to take advantage of growing opportunities for increased advertising volume.

The volume of staff work in all areas is difficult to measure accurately. The accomplishments of the year are recited in some detail in the committee reports presented to the council. A few general indexes of staff activities are as follows: During the past year 450,000 pieces of mail left the Institute's offices. 806,108 copies of Institute pamphlets and publications, apart from *The Journal* and the *Certified Public Accountant*, were distributed, compared with 527,922 at the end of the preceding year. Membership as of August 31, 1948, was 12,247, as compared with 10,954 at the end of the preceding year. The library has answered 18,001 inquiries in the past fiscal year, has circulated 7,055 books and pamphlets, and has received 8,328 visitors. The circulation of *The Journal of Accountancy* increased from 42,000 to 50,000. Revenue from advertising was \$85,388 as compared with \$62,000 the previous year. 15,911 candidates sat for the uniform examination at the May and November examinations, as compared with 11,712 the preceding year. Total staff September 1, 1948 was 77, in comparison with 70 the year ended August 31, 1947.

While this report is not the proper place for a detailed recital of Institute activities, a few of the major problems engaging the efforts of the staff should be mentioned. The Institute took a leading part in successful opposition to two bills in Congress which would have restricted the scope of activities of certified public accountants in the field of tax practice. It has actively cooperated with state societies in resisting attempts by bar associations to reach the same ends

through litigation. It has taken a leading and influential part in consideration of controversial questions surrounding the reporting of corporate net income in a period of inflation. It has produced a number of Accounting Research Bulletins, Statements on Auditing Procedure, and Case Studies in Auditing, and in addition, *An Analysis of Published Financial Reports of 525 Corporations*, the sale of which has produced a net revenue of approximately \$27,474. It has been represented at Congressional committee hearings, and in conferences with government officials, on a number of important problems, including wages and hours, taxation and tax administration, Securities and Exchange Commission activities, and federal government accounting. It has provided assistance to state societies in a number of directions, principally in fields of public relations and state legislation. It has expanded its own public relations program, successfully completed the initial tasks called for in that program, and produced a large volume of publicity for the profession. It has helped to organize two regional accounting conferences, and two graduate study conferences at university campuses. It has kept in communication with representatives of the American Bar Association, Robert Morris Associates, Securities and Exchange Commission, New York Stock Exchange, National Association of Manufacturers, Controllers Institute of America, National Association of Cost Accountants, Tax Executives Institute, American Trade Association Executives, Bureau of Economic Research, American Accounting Association, Association of CPA Examiners, and many foreign bodies of accountants. Meanwhile, it has continued its regular work in the fields of examinations, ethics, publications, and many others and has kept its own housekeeping up to date.

Delineation of Objectives

A third ingredient essential to the success of an association of this kind, is a sense of direction. Lacking the profit

motive, definite goals must be set up so that the work may be planned in advance, and carried out in an orderly manner with definite ends in view. It would be easy to waste an organization's energies by passive submission to day-to-day demands, confusion as to priorities, constant shifts of objectives, false starts, or frequent substitution of new projects for old. In this respect too, the Institute is fortunately situated. Its program of activities has not been suddenly or casually adopted. It has been built over a long period of years, new projects being added only after careful consideration has judged them to be worth doing well, and the facilities have been provided for undertaking them without impairing older projects whose usefulness warranted their continuation. In every phase of activity general objectives recommended by appropriate committees have been approved by council and the staff has made up its work programs to accomplish these ends. The result has been a minimum of wasted effort, and a high ratio of accomplishment to dollar of expenditure.

A start has been made in reducing to writing a detailed program of staff work, translating the policy pronouncements of the council into terms of a staff work budget for the year. Periodical meetings of department heads are being held, at which progress in the achievement of stipulated objectives is checked and measured.

Financing

A fourth ingredient essential to continued success of an association like the Institute is adequate financing. To paraphrase a famous remark, many a splendid association program has been wrecked upon the rocks of unsound fiscal policy. It is a fatal error for an organization, in bursts of enthusiasm, to undertake projects which it lacks the funds and the manpower to complete satisfactorily. In the effort to do too much, everything may be done poorly, with the result that membership declines and even less funds must be spread over a program already too ambitious.

The Institute has been notably successful in financing the expansion of its activities by the revenues derived from its own growth. On very few occasions has it "passed the hat" for contributions to start a new project, and up to now it has always been able to absorb the expense of such projects in the regular budget, or make them self-supporting, before the original contributions were exhausted. For the most part, however, it has deferred expansion of activities until the necessary revenues were already at hand. With each additional activity and service there has come an accession to the membership, and so revenues have kept pace with expenditures, though the margin has often been narrow. Since 1936 it has built up from annual surpluses a contingency fund, which now stands at \$117,591. Recently the inroads into the contingency fund have been quite heavy to meet the costs of legislative activity, litigation, and special projects. In the past five years council has authorized expenditures aggregating \$51,147 from the contingency fund, while increments to the fund have been \$105,488.

Conclusion

All in all, the Institute seems well supplied with the four essential ingredi-

ents of a successful national professional association: active membership participation, competent staff organization, a sense of direction, and adequate financing. Certainly its influence and accomplishments have far surpassed the goals that would have seemed reasonable even ten years ago.

As executive director, I have participated to some extent in almost all the activities of the past year—in some only slightly, in others quite intensively.

In addition to regular administrative work, preparation of editorials, reception of visitors at the office, and countless discussions with other members of the staff, I have attended 45 committee meetings, 55 conferences with representatives of other organizations (including government officials in Washington), and meetings of state societies in North Carolina, Michigan, Maine, New Jersey, Puerto Rico, Maryland, Illinois, Massachusetts, Rhode Island, Minnesota, Pennsylvania, Texas, California, Washington, Oregon, South Carolina, New York, and Ohio.

Respectfully submitted,

JOHN L. CAREY, *Executive Director*

September 10, 1948.

III.

TECHNICAL REPORTS

Committee on Accounting Procedure

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee completed on September 18th its second meeting since the last report to council. The earlier meeting was held in June. The subjects under consideration at these meetings and the actions of the committee regarding them are presented below.

Form of Income Statement

In reports to stockholders, the per-share earnings have often been computed and reported on some figure other than the net income. Not only has this situation been one of considerable concern to practicing accountants but it is one which has received careful study by the SEC and the New York Stock Exchange. The Exchange took the view that the manner in which appropriations of income were dealt with tended to cause misconception of earnings, and suggested remedial action. The committee felt that some action was necessary on its part to clarify the method and form of reporting net income and accordingly has approved the issuance of Bulletin No. 35, recommending that net income be shown without deduction or addition of items which are properly excluded from the determination of net income. Such items include charges or credits with respect to general contingency reserves, inventory reserves, and appropriations in contemplation of replacement of productive facilities at higher costs, as well as extraordinary charges and credits dealt with in Accounting Research Bulletin No. 32. A draft of the proposed bulletin, after discussion with the Stock Exchange, was distributed for comment to the Controllors Institute and the Securities and Exchange Commission. To be effective, an early issuance of the bulletin was urgently needed before commitments were made with respect to the annual statements for the current year. Accordingly, it was felt

the distribution would have to be limited to these groups whose criticisms were thought to be most significant. It is to be noted in this respect that the Stock Exchange believed that the proposed bulletin would meet its problem and that hearty approval was given by representatives of the Controllors Institute and by the Chief Accountant of the Securities and Exchange Commission.

Depreciation and High Costs

During both meetings the committee was faced with the difficult problem of how to deal with depreciation of plant assets during the present period of high replacement costs. Grave concern has been expressed by businessmen, economists and others, as well as by accountants, over the apparent taxing of capital under the guise of profits. Questions have been raised as to the adequacy of depreciation charges made against income when they are substantially less than the amounts of cash required to be expended to maintain the present productive facilities. Some take the view that the provision for such expenditures is a financial problem and that the additional funds required represent an increase in capital investment. Others take the view that it is unrealistic to say profits have been earned if they are not available for disbursement but must be retained merely to maintain the present productive capacity. Pressure has been exerted in some quarters for changes in accounting concepts to recognize the changing value of the dollar. Solutions or partial solutions have been advanced. The Institute itself issued a questionnaire to several hundred prominent business executives, economists, investment analysts, and others who make extensive use of corporate financial statements. The replies to this questionnaire indicate that while the majority do not at this time favor a change in basic accounting procedures a majority does believe that corporate income figures should

be accompanied by supplementary information regarding the effect of price changes.

The business study group, sponsored partly by the Institute and partly by the Rockefeller Foundation, is intensely interested in this problem. The committee on accounting procedure has earnestly sought its solution. It has considered and rejected proposals for depreciating plant assets on the basis of replacement costs or on a basis which makes allowance for the change in purchasing power of the dollar. It has also rejected the view that financial statements should be prepared on an economic basis. Representatives of the committee and others discussed the related tax problems with officials of the Treasury Department and with the staff of the Joint Congressional Committee on Internal Revenue Taxation.

As a result of these studies, the committee has concluded that a basic change in accounting treatment would confuse readers of financial statements and nullify many of the gains made towards clearer presentation of corporate finances. It has accordingly decided that it should not modify its previous stand as expressed in Accounting Research Bulletin No. 33, but would give its full support to the use of supplementary schedules, explanations or footnotes by which the need for the retention of earnings would be made clear. A statement giving expression to these views has been prepared for issuance.

Stock Dividends

Acting upon the request of John Haskell of the New York Stock Exchange, the committee gave consideration to a suggestion that had been made that corporate recipients be permitted to include stock dividends in income at a figure no greater than the amount charged against earnings by the issuing corporation. The fear had been expressed that unless corporations were permitted to recognize income from stock dividends, the marketability of shares of companies which issued them would be restricted and their ability to grow through equity financing handicapped. In its reply to the Exchange the

committee concluded that the position taken in Bulletin No. 11 was sound, i.e., that ordinary stock dividends should not be recorded as income by corporate recipients. The committee also considered the advisability of amending the bulletin to cover more specifically cases on the borderline between stock dividends and split-ups. It was decided these cases could be handled adequately by the director of research in his column in *The Journal of Accountancy*.

Questions Raised by Income Study Group

Under date of May 3, 1948, George O. May as research consultant to the Income Study Group, financed partly by the Institute and partly by the Rockefeller Foundation, made a request of the committee for a statement of its position on three questions.

"1. Is Lifo accounting, as now applied, only a reasonable assumption as to the actual flow of goods and costs or more broadly a means of bringing costs into account on approximately the same price level?"

"2. If the broad view of Lifo is accepted, should accounting procedures be revised so as to bring the cost of property exhaustion into account at approximately the same price level as the revenues and, if so, how should this object be accomplished?"

"3. Would the group suggest that the situation be met by (a) changes in methods of accounting; (b) changes in methods of presentation; or (c) supplementary information, assuming social usefulness to be the objective?"

The committee in June authorized the following reply:

"Dear Mr. May:

"Your letter of May 3rd, submitting three questions on which the Study Group would like to have the views of the committee on accounting procedure of the Institute, was carefully considered at the meeting of the committee held on June 24th and 25th.

"The committee has asked me to advise you that its answer to your question No. 1 is as follows:

"The Lifo method of accounting for inventory costs, as now applied, is an accounting device for applying incurred costs in a manner, the purpose of which is to relate costs to revenues more nearly on the same price level basis than would the Fifo method."

"The committee also asked me to advise you that it does not feel that it is prepared to answer your second and third questions at this time. The subject matter of these two questions is now under consideration by the committee and it does not expect to reach a conclusion before its meeting in the middle of September. If, at that time, it is prepared to answer these two questions, you will be advised."

"Very truly yours,

"S. J. BROAD, *Chairman*

"Committee on Accounting Procedure"

Lifo for Costing Inventory

In its efforts to narrow the areas of differences in accounting treatment, the committee has been concerned with the problems resulting from the increasing use of the Lifo method in costing inventories. It is difficult to compare statements of different companies in the same industry when some of them use Lifo, others Fifo; and when the degree to which Lifo is adopted differs. It is also hard to follow the progress of an individual company during periods when Fifo is replaced by Lifo, and in varying degrees. The committee rejected the proposition that Lifo should be the only basis for costing inventories. It has concluded, however, that study should be continued as to: (a) the need for a replacement reserve for basic stocks reduced below normal requirements, (b) the question of reducing the inventory to market when Lifo cost is higher, (c) the extension of Lifo to the labor and over-head components of work-in-process and finished goods, (d) whether estimated replacement value of the inventory should be disclosed in financial statements when Lifo is used, and (e) whether the extent of the use of Lifo should be made known when partially applied.

Stock Options

The committee has reached substantial agreement on a statement on accounting for compensation in the form of stock options. Further clarification is necessary as to conditions under which the primary purpose of such options may be the raising of additional capital, or the promotion of widespread employee participation in ownership, or the granting of compensation. It is hoped that a bulletin will be ready for issuance in the near future.

Past Service Annuities

Substantial agreement was reached on a bulletin providing for the accounting treatment of payments for past services when a pension plan is inaugurated. Under the provisions of the bulletin payments for past service annuities would be allocated to current and future periods and not to surplus; provided that if they should not be sufficiently material in amount to distort the results of operations in a single period they may be absorbed in the current year.

Terminology

At the request of the committee, the committee on terminology submitted recommendations on the use of the term "reserve" in accounting, and the committee has expressed its approval of such recommendations. The committee on terminology is also giving consideration, at the request of the committee, to the use of the terms surplus, earned surplus and capital surplus and possible alternatives therefor.

Mine Accounting

The chairman of the subcommittee on mine accounting reported that his committee had reached agreement with the Securities and Exchange Commission on the new form of accounts under the proposed amendment to Regulation S-X. A report of the committee on the subject will be issued shortly.

General

The committee during the same period also approved the publication in *The*

Journal by the research department of an article summarizing past pronouncements on disclosure. A study of what constitutes essential disclosure in financial statements in added respects is currently being carried on by a subcommittee assisted by the research department, looking toward an official statement by the committee. This is considered a long-term project. Apart from these direct activities, *The Journal* column "Current Accounting Problems" edited by the director of research has been useful to the committee as a means for discussion of other questions which do not seem to be of sufficient importance to demand specific action by the committee.

The committee has continued its cooperation with governmental and other bodies through the chairman, members of subcommittees, and the director of research. Meetings have been held with officials of the Treasury Department, the staff of the Joint Congressional Committee on Internal Revenue Taxation, the Chief Accountant of the Securities and Exchange Commission, officials of the New York Stock Exchange, committees of the National Association of Manufacturers and of the National Industrial Conference Board, and others. These meetings have resulted in exchanges of information and they have helped both in the solution of specific problems and toward the objective of narrowing the areas of differences in accounting prac-

tices. Contact has been maintained with cooperating groups with respect to a number of matters under consideration by the committee. In addition to the groups just mentioned, these cooperating groups include also various state societies of certified public accountants through their officers or technical committees, the Controllers Institute, the National Association of Cost Accountants, and the American Accounting Association.

Respectfully submitted,

SAMUEL J. BROAD, *Chairman*
 JOHN N. AITKEN
 WILLIAM H. BELL
 H. L. DALTON
 THOMAS M. DICKERSON
 JAMES L. DOHR
 FRED J. DUNCOMBE
 J. P. FRIEDMAN
 ANSON HERRICK
 THOMAS G. HIGGINS
 DAVID HIMMELBLAU
 JOHN B. INGLIS
 PAUL K. KNIGHT
 JOHN A. LINDQUIST
 EDWARD J. McDEVITT
 WILLIAM A. PATON
 MAURICE E. PELOUBET
 WALTER L. SCHAFER
 MAURICE H. STANS
 VIRGIL S. TILLY
 C. OLIVER WELLINGTON

September 20, 1948.

Committee on Terminology

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: When your committee on terminology was reorganized in 1940, a survey was made of developments up to that time and a plan was adopted for the furtherance of efforts in this area. Under that plan the membership of the terminology committee was constituted from the membership of the committee on accounting procedure, and the recommendations of the terminology committee were,

for convenience, to be published as Accounting Research Bulletins but not as formal pronouncements of the procedure committee. Since that time 6 bulletins have been issued as terminology reports (Accounting Research Bulletins 7, 9, 12, 16, 20, and 22); the general problems of terminology have been discussed; and some sixteen basic definitions have been formulated.

A review of the efforts made by the various predecessor committees indicates

that the limited progress in the formulation of definitions is due to two factors. In the first place, experience demonstrates forcibly that the problems of formulating accounting definitions and of formulating accounting procedures are inextricably interwoven. Through the medium of definitions, accounting procedures may be established; in the formulation of procedures, meanings are attached to accounting terms. The wisdom of correlating terminology and accounting procedure has been demonstrated and it is apparent that the specific definitions of the terminology committee may be augmented by the further definitions which are at least implicit in the various Research Bulletins on procedure.

In the second place, experience indicates that the problem of definition is an exceedingly difficult one, and that only limited progress can be made by a small and voluntary committee. If the work is to go ahead more rapidly, some plan of operation on a larger scale must be formulated and adopted.

As a result of the change in the personnel of the terminology committee during the year, the situation was reviewed

at a meeting of the two committees and it was agreed, for the time being, to continue the 1940 plan. Accordingly your committee proposes to submit recommendations with respect to the use of the terms reserves, earned surplus, capital surplus, and contingencies. In addition it is suggested that your committee state formally the definitions which are inherent or implied in the various Research Bulletins on accounting procedures.

Obviously there is a great need for a better understanding of accounting and it seems clear that no greater contribution to such an understanding can be made than by greater clarity and accuracy in the use of language. If more rapid progress is desired your committee should be provided with paid assistance. Specifically one member of the Institute's present research staff, or an additional member if necessary, might be assigned to your committee in order to make possible a larger scale of operation.

Respectfully submitted,

JAMES L. DOHR, *Chairman*

WILLIAM H. BELL

ALVIN R. JENNINGS

August 18, 1948.

Committee on Auditing Procedure

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: As reported last May, the committee on auditing procedure is engaged in studying a number of auditing subjects of interest to the accounting profession. Various subcommittees have been active during the summer and have prepared reports which have been considered at a meeting of the full committee held today. Final action was taken by the committee on the revision of the short-form report or certificate and on a special report on Internal Control. The other matters have been referred to our successor committee.

Revision of Short-Form Report

The committee approved for issuance

Statement on Auditing Procedure No. 24 entitled "Revision in Short-Form Accountant's Report or Certificate." The statement recommends that the first paragraph of the standard short-form of accountant's report or certificate be revised as follows:

- (a) Exclude reference to the examination of the system of internal control.
- (b) Exclude reference to the omission of a detailed audit of the transactions.
- (c) Correct the inconsistent expression relating to auditing standards applicable in the circumstances.

The revised form of the first paragraph of the report, incorporating these changes, reads as follows:

"We have examined the balance-sheet of X Company as of December 31, 19— and the related statement(s) of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances."

Internal Control

The committee gave careful consideration to the draft report on Internal Control prepared by a subcommittee and authorized its issuance, as a special report, after incorporation of certain editing changes to be worked out by the director of research, the chairman of the subcommittee, and the chairman. This report includes a rather comprehensive

discussion of the meaning and principal elements of internal control. It also includes a graphic illustration of internal control through charts of functional organization responsibilities and the flow of records procedures, as well as a related internal audit program. It is the hope of the committee that study and discussion of this report by the accounting profession and by industrial accountants and officials will lead to progress in dealing with this mutual problem.

Respectfully submitted,

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| PAUL GRADY, <i>Chairman</i> | A. JOEL JACKSON |
| J. A. BOULAY | ALVIN R. JENNINGS |
| GARRETT T. BURNS | THOMAS L. KEANEY |
| WILLIAM D. CRANSTOWN | C. ALVIN KOCH |
| RALPH H. GALPIN | MALCOLM LAMONT |
| HENRY I. HAMM | IRA B. MCGLADREY |
| RUSSELL C. HARRINGTON | HAROLD A. MOCK |
| GORDON M. HILL | NORMAN H. S. VINCENT |
| KARL R. ZIMMERMANN | |

September 15, 1948.

Committee on Arbitration

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee held no meetings during the year. Such business as was done was carried on by correspondence among the committee members.

The principal question that this and subsequent committees will have to consider is whether it is within the scope of a committee of the American Institute of Accountants to attempt to further the use of commercial arbitration as a means of settling the controversies to which it is adapted and whether the Institute should encourage its members to act as arbitrators, expert witnesses, or witnesses to facts in arbitration proceedings.

There are many occasions when the speed, certainty, and economy of an arbitration as opposed to legal proceedings are forcibly brought home to public accountants. There are few accountants of any breadth of experience who have not been called upon to testify or to prepare material to form a basis for testimony in cases involving damages through infringement of patents or trademarks, loss or damage through failure to perform

contracts, the amount of profits as determined under an agreement, a division of profits under an agreement, and many other similar questions of mixed law, fact, and accounting principles.

In most cases the accountant and frequently the judge, special master, or other official before whom the hearing is held expresses himself as being dissatisfied with the legal technicalities and delays involved in such cases and often says that if a panel of competent arbitrators were sitting, the case could be settled in a day or two instead of a matter of months or years. This, we are sure, is the experience of many members of this Council. The question to decide is whether or not the members of the Institute should take such action as they can to further the use of arbitration among their clients and to encourage the participation of Institute members as arbitrators or witnesses.

Respectfully submitted,

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| HOWARD L. GUYETT, | LYNN E. BAXTER |
| <i>Chairman</i> | NOAH E. DERRICK |
| JAMES W. BARTROP | C. L. TANGNEY |

September 13, 1948.

Committee on Federal Government Accounting

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since the spring meeting of the council, the committee on Federal government accounting has continued to work on its undertaking for the Hoover Commission, and this has been the committee's principal activity. Four more all-day sessions have been held, at the first three of which all the major policy and technical questions upon which the committee had to act were disposed of. At the fourth session, held yesterday, the development of the committee's report was begun. The committee hopes to complete and put its report in the hands of the Commission by October 15th.

As chairman of the committee on federal government accounting, I take this

opportunity to pay tribute to the work that the members of the committee have done. Every meeting of the committee has lasted for a full day and has been well attended; and there has been a great volume of material to be reviewed by the members of the committee during the periods between meetings. I think the Institute has a right to be proud of the members of this committee for the large amount of time that each of them has given to the matters that have been presented for their attention and to the attainment of the over-all objective of the committee.

Respectfully submitted,

T. COLEMAN ANDREWS, *Chairman*

September 9, 1948.

Committee on Federal Taxation

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The following report is submitted on behalf of the committee on federal taxation.

As reported in the midyear report of this committee, the extensive list of technical amendments to the Internal Revenue Code which had been prepared by the preceding committee on federal taxation was submitted to congressional committees and appearances made on behalf of several of the proposals. Subsequent to the submission of the recommendations, Congress passed the Revenue Act of 1948 which embodied two of the committee's proposals. The Revenue Revision Act of 1948, passed by the House but not by the Senate prior to adjournment, contained several of the technical amendments which had been proposed by the

committee. There remain, however, approximately twenty-two of the committee's recommendations toward which efforts have been expended and should be continued for inclusion in any revenue revision measure proposed to the next Congress.

In addition to the technical amendments previously mentioned and included in the formal recommendations submitted by the Institute, several other proposals have been developed by your committee which have been transmitted to the House Committee on Ways and Means. Arrangements have been made for an opportunity to present to the staff of the Joint Committee on Internal Revenue such further proposals and additional comments relative to the amendments already suggested.

It is the opinion of your committee that the immediate future will present the

greatest opportunity that has existed for some time to obtain necessary revision of the Internal Revenue Code. It seems imperative, therefore, that the succeeding committee immediately supplement the efforts which have already been made to obtain favorable consideration of the Institute's proposals.

Much of the time and effort of the members of your committee has been related to various problems arising with regard to tax practice by others than lawyers. Extended cooperation has been maintained with the Institute's committee on tax policy and practice.

The midyear report of this committee recommended to Council the consideration of the advocacy by the Institute of the establishment of an informal body to which taxpayers might appeal their tax controversies. Committee deliberations have developed a consensus of opinion that it would not be advisable for the Institute to undertake such advocacy at the present time. It is probable that the subject will need review upon settlement of the presently existing controversy with regard to the place of the Tax Court in the national judicial system.

Your committee, while realizing that the subject is not pertinent to practice by certified public accountants, has recog-

nized that a serious problem exists in the field of tax practice relating to the possibility of control of the unqualified "tax expert." It has been recommended by some sources that a system of registration of all tax practitioners, at any and every level of practice, be established under the jurisdiction of the Treasury Department. Proposals which have been made include giving effect to such registration through annual filing by those desiring to practice and the payment of a nominal fee to cover the clerical cost involved. Supplementing the foregoing proposal, it has also been suggested that the affidavit of preparation on federal income tax returns be amended to include reference to a registration number or registration date. Your committee, deploring as it does the existence of this problem, recommends that the Institute support such a proposal as being at least an initial step toward the protection of the public from the unqualified, fly-by-night "tax expert."

During the year, your committee has considered and disposed of numerous inquiries and suggestions by members of the Institute.

Respectfully submitted,

MARK E. RICHARDSON

September 20, 1948.

Committee on Savings and Loan Accounts

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: In exploring ways and means of exercising our influence and creating close relationship with savings and loan associations, the committee has arrived at the conclusion that an important and constructive step would be a revision of the bulletin entitled, *Audit of Savings and Loan Associations by Independent Certified Public Accountants*, published by the Institute in July, 1940.

The committee has not reached the

point where it can at this time make a specific recommendation or a request to council for permission to publish. It is still engaged in working out the details of the proposal.

Respectfully submitted,

MARSHALL M. THOMAS, *Chairman*
J. BERNARD BROWN
CROFFORD H. BUCKLES
THOMAS A. WILLIAMS
CLYDE A. ZUKSWERT

September 3, 1948.

Committee on Social Security

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The preamble to this report may well be a repetition of that of the preceding year. During the current year the committee on social security placed emphasis on the furtherance of the program adopted at its meeting in March, 1946, and approved by council at its meeting in May, 1946, looking to the simplification and standardization of procedures in the administration of the social security laws. The vehicle to be used for the implementation of that program was the establishment of means of cooperation with other organizations interested in the same objectives. Of the organizations having such interest, the Interstate Conference of Employment Security Agencies was believed to be closest to the problem through its subcommittee on simplification of benefit formula and employer reporting.

Meetings

A meeting of the committee was held in Chicago in May. The summary report to the U. S. Senate Committee on Finance by the Advisory Council on Social Security was discussed and it was decided to have the report reviewed by the entire committee. It was felt that this report was a document of sufficient interest and importance to warrant having the committee consider whether recommendation should be made for its general distribution. Following its own session, the committee sat in on two sessions of the Subcommittee on Simplification of Benefit Formula and Employer Reporting of the Interstate Conference of Employment Security Agencies. While the results of these sessions were not tangible to the extent of producing an active program of cooperation, further progress was made in narrowing the areas of mutual interest in which a program of active cooperation may be developed. It was enlightening to see the interest on the part of these representatives of state agencies in exploring

means of reducing both employers' burdens of reporting and their own staffs required for record keeping.

Reports Reviewed

The report of the Advisory Council on Social Security was reviewed by the whole committee and was considered to be of sufficient interest to the members of the Institute to warrant its publication. The committee recommended that it be published in *The Journal* under "Official Decisions and Releases." The report summarized the present provisions of the Social Security Act and gave the Advisory Council's recommendations for its amendments, which are summarized as follows:

1. That the plan should become completely contributory, eliminating all provisions for assistance.

2. Benefits should be related to wages earned.

3. Broaden coverage to include all workers.

4. Increase benefits to basic 50% of wages up to \$75 per month plus 15% of excess up to \$350 of wages per month and make the maximum rate of benefit available regardless of years of participation.

5. Provide new starting date for benefits and provide the beneficiaries must have worked one-half of the time from new starting date. Increase permissible earnings of beneficiaries from \$15 to \$35 per month.

6. Financing to be on contingent reserve basis with immediate increase in tax rate to 1½% on employer and employee; postpone further increase until needed to cover disbursements and then increase to 2% each; above 2% begin government participation and from there on work toward equal contributions by employer, employee, and government.

7. Increase annual taxable wages from maximum of \$3,000 to \$4,200.

The report of the Subcommittee on Simplification of Benefit Formula and

Employer Reporting made certain recommendations to the Interstate Conference of Employment Security Agencies. If adopted by the Conference some of these recommendations could fall within the scope of the objectives of this committee and could become the basis for active cooperation between the two groups. The recommendations of mutual interest were as follows:

1. *Reciprocal Coverage Arrangements.* The "uniform employment definition" for allocating coverage of multi-state workers to a single state. Interpretations vary with the states. The subcommittee recommends adoption of new statutory language to clarify the definition and to designate authority for interpretation.

2. *Elimination of Wage Records.* The subcommittee recommends no specific presently existing system but notes that there is a burden of proof against maintenance of complete central office wage records and that there is ample reason for earnest study of alternative methods which have been tried or suggested.

Legislation Reviewed

Some fifty or more bills introduced into the record and the extraordinary sessions of the recently adjourned Congress were reviewed by the committee. Most of the bills, as has been true of most bills introduced within the experience of your present committee, dealt with the expansion of coverage or the increase in benefits in some form. So far as your committee was able to learn the only bill passed affecting the Social Security Act was one which

exempts newsboys from coverage under the Act.

Conclusions

The committee's avowed objectives of working toward the simplification and standardization of records required for social security purposes advanced a step through the further activities with the Interstate Conference of Employment Security Agencies. It is believed that continued cooperation with that group will ultimately result in at least two tangible benefits to employers; the uniform handling of coverage by all states and the standardization or possible ultimate elimination of quarterly wage reports. To the extent that the Institute can have a hand in the accomplishment of these two objectives it will have served a useful purpose to its membership. It is believed that your committee should continue to study recommendations made by the Interstate Conference, by the Advisory Council on Social Security, and by other governmental bodies, in order that it may bring to the attention of the Institute membership all matters which it deems to be of general interest, and in order that it may propound therefrom such recommendations of its own as it may deem appropriate.

Respectfully submitted,

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|---------------------|--------------------|
| BYRON P. HARRIS, | VERNON NELSON |
| <i>Chairman</i> | ALFRED D. PEABODY |
| WILLIAM W. COLLEDGE | GLENN A. RAILSBACK |
| THEODORE L. KOOS | JOHN WISEMAN |

September 15, 1948.

Committee on Stock Brokerage Accounting

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: This committee has received the first part of a proposed chart of accounts from Association of Stock Exchange Firms, Accounting Division, with the request to express its views with regard to the proposal.

The subject is being studied and the indication is that the succeeding committee will hold a meeting with representatives of the Association within the very near future.

Respectfully submitted,
FREDERICK W. WULFING, *Chairman*

September 1, 1948.

IV.
REPORTS ON
PROFESSIONAL AFFAIRS

Board of Examiners

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since reporting to council in May, the board of examiners has held three general meetings and numerous subcommittee meetings.

Applications and Admissions

The work of the board on admissions is summarized as follows:

During the fiscal year, September 1, 1947, through August 31, 1948, the board received 1,747 applications for admission. As of August 31, 1947, 461 applications were pending and at the close of the year, 636 applications were pending. Admissions during the year were 1,526, compared with 1,126 the preceding year.

The board felt that it could not recommend admissions of 20 applicants who failed to have had the equivalent of two years of public accounting experience. Ten applications were rejected for other reasons.

Examinations

The Accountancy Board of Ohio adopted the uniform certified public accountant examination for the first time in May, 1948, and the Maryland Board of Examiners of Public Accountants will adopt the examination in November. This will leave but two states, namely Pennsylvania and Wisconsin, which do not use the uniform examination. Legislation was passed last year in Pennsylvania which specifically empowered the state board to use the examination, and Wisconsin has under consideration similar legislation.

The number of candidates sitting for the uniform examination has increased substantially. Approximately 4,000 sat for the examination in May, 1946, approximately 6,000 in May, 1947, and about 8,400 in May, 1948.

The following statistics present a comparison of the percentage of papers given

passing grades at the last three examinations:

| | May 1947 | Nov. 1947 | May 1948 |
|-----------------------|-------------|--------------|-------------|
| Auditing | 30.5 | 45.4 | 42.4 |
| Commercial law | 44.7 | 32.5 | 49.6 |
| Theory of accounts.. | 81.2 | 43.0 | 22.8 |
| Accounting practice.. | 19.8 | 24.6 | 33.3 |

The board continues to explore ways of improving the uniform examination. A committee of the American Accounting Association appointed at the request of the board of examiners came to New York during the grading period to review the procedures followed, and study the scope and structure of the uniform examination. This committee is continuing its work and expects to report before the year end.

A questionnaire was sent by the board to all state boards of accountancy eliciting constructive criticism of the examination. The questionnaire also included a proposal that the fall examinations be scheduled for late September or early October. This change, if adopted, would permit grading of the uniform examination to be completed before the year end.

Objective type questions such as have been used successfully in other professional examinations are being introduced on a modest scale.

The board of examiners has been concerned over the rising cost of the uniform examination. Last year, costs exceeded revenues from state boards of accountancy by about \$36,500. A modest adjustment of the over-all examination service fees charged state boards of accountancy will become effective in November, 1948. The old fee schedule of \$10 if a candidate wrote all subjects, and \$5 if he wrote less than all subjects, has been changed to \$3.00 a subject, with the exception of Accounting Practice, Parts I and II, consisting of two papers, at \$6 for the subject.

As an economy measure, the board has suggested for consideration of the Association of Certified Public Accountant

Examiners, that henceforth no numerical grade less than 60 be reported to state boards. The letter F would indicate failure on the part of all those who failed to obtain 60 out of 100 points.

Proposed Amendment of By-laws

The board of examiners has over the years carried out the dual functions of an examining board and a board of admissions. Prior to 1936, the board of examiners examined candidates directly for admission to the Institute. Since 1936, the by-laws have required that all applicants for admission must possess a CPA certificate of a state or territory of the United States, and it is only in rare instances, that further examination has been required for admission.

The Institute received over 1,700 applications for admission last year. The great care that must be given to the review of these applications on the one hand, and the increased attention that is directed to the uniform examination on the other, has led the board to recommend that the by-laws be amended to provide for a committee on admissions, composed of five members in public practice. The board of examiners would then be free to devote its entire energy to the uniform examination. With a membership of over 12,000, it seems unnecessary to delegate to a single board, two such important functions. The original purpose of having

the board serve in a dual capacity has ceased to exist. It is hoped that the amendment necessary to carry out this proposal will be approved at this annual meeting for submission to the membership for mail vote.

Elijah Watt Sells Awards

The following candidates were elected to receive the Elijah Watt Sells prizes for excellence in the May, 1948, examination.

First prize (gold medal)—Carl J. Bohne, Jr., Austin, Texas

Second prize (silver medal)—Ivan O. Bull, Davenport, Iowa

Honorable mention—

Robert M. Pemberton, Muncie, Kans.

Harold Guzofsky, Denver, Colorado

The awards will be presented by the chairman of the board of examiners at the general session of the annual meeting on September 21st.

Respectfully submitted,

J. WILLIAM HOPE, *Chairman*

FRANK AHLFORTH

WALTER N. DEAN

IRA N. FRISBEE

J. CYRIL MCGARRIGLE

DONALD P. PERRY

JOHN W. QUEENAN

EDWARD J. STEGMAN

September 19, 1948.

Committee on Annual Awards

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: In August, 1943, the President of the American Institute of Accountants, under instructions from the executive committee, appointed a subcommittee to study the recommendation of the Institute staff, that the Institute establish annual awards for outstanding service to the profession. The report of this committee, dated October 12, 1943, was approved, and the Council of the American Institute of Accountants recommended that a committee on annual

awards be appointed by the President of the Institute as soon as possible after each annual meeting, that each award take the form of a medal to be accompanied by a citation suitable for framing, and that the Institute committee could seek the advice of any other bodies as it deemed advisable. This subcommittee recommended that the American Institute of Accountants establish three annual awards as follows:

1. For outstanding service to the profession within the award year.
2. For the outstanding book or article

of the year in the field of accounting or auditing.

3. For outstanding research work in accounting or auditing by a student. (The offering of any award under this item should be withheld until the termination of the war.)

The subcommittee did not attempt to provide specific rules for the determination of these awards. In discussing this situation with one of the members of the original committee we were advised that the committee thought, at that time, it would be inadvisable to provide specific rules and that such rules would develop through the future activities of the committee on awards. It should be noted here that the report of the subcommittee adopted by the council of the American Institute of Accountants in 1943 limited the awards to three annual awards, one within the award year for each of the categories set forth above. Since the adoption of this report by the council of the American Institute of Accountants in 1943 there have been awards made in each of the years, 1944, 1945, 1946, 1947.

Your committee on awards recommends that Edward A. Kracke receive the Institute award for the following outstanding service to the profession and the public interest during the year 1948:

Mr. Kracke was appointed chairman and organized the Institute's committee on cooperation with Congressional Appropriations Committees. As the name indicates the purpose of this committee was to cooperate with Congressional Appropriations Committees in their efforts to analyze and study the federal budget and to make recommendations for the reduction of federal expenditures. Assistance to these Congressional committees started in 1947 and has continued through the year 1948. During the past two years Mr. Kracke has devoted a substantial part of his time to these committees at great personal sacrifice and has demonstrated to Congress that the accounting profession is ready and willing at all times to assist Congressional committees or other public bodies in an effort to get more efficient

administration of government finances. At the 1947 annual meeting of the American Institute of Accountants the Appropriations Committee of the House of Representatives demonstrated its appreciation of the accomplishments of Mr. Kracke and the other members of his committee and expressed their deep appreciation for this service. It was probably the best demonstration that Congress has ever had as to the willingness of prominent certified public accountants to assist governmental agencies and to serve the public interest.

Based upon the experience of your committee on awards for the current year the committee is of the opinion that the basis for determining the person who is to receive the award for outstanding service to the accounting profession within the award year should be broadened so that the Committee is not limited to one award in this category and is not necessarily limited to service within the award year. For example, during the current year your committee received several other recommendations suggesting that certain other members of the Institute receive this award in recognition of outstanding service to the profession and in the public interest. One of these suggestions related to services rendered by two of our members to other governmental bodies within the award year at substantial personal sacrifice and another related to outstanding service rendered by one of our members to the accounting profession over a long period of years.

In the case where two of our members rendered this public service within the award year the committee was in the difficult position of realizing it was limited to making one award for outstanding service to the profession within the award year. It believes it has made wise choice in selecting Mr. Edward A. Kracke to receive this award for the year 1948. On the other hand, we have the situation where more than one of our members performed an outstanding service to the profession within the award year, which, if not recognized, the opportunity for

recognition is gone owing to the limitation embodied in the original report creating this award. It is a situation which probably would not occur more than once or twice over a long period of years. It would appear that some provision should be made which will permit the committee on awards to recognize more than one person to receive this award, where, in the opinion of the committee such recognition is warranted by all the surrounding circumstances.

In the case of the member suggested for outstanding service to the profession over a long period of years your committee believed that the service of this member merited recognition. It was recognized that in two or three instances previous committees, and rightly so, had departed somewhat from a strict interpretation that the award for outstanding service to the profession was necessarily limited to the performance of such service within the award year and could be the culmination of several years of outstanding service to the profession. Your committee was of the opinion, however, that it was limited to one award and where the outstanding service to the profession occurred within the award year such service should first be recognized. It would appear that some provision should be made that will permit the committee on awards to recognize outstanding service to the profession over a long period of years, where, in the opinion of the committee such recognition is warranted by all the surrounding circumstances.

To assist the council of the Institute in its judgment as to whether or not the basis for determining this award should be broadened, there is submitted hereunder certain comments abstracted from reports of previous committees:

"It is quite possible, however, that these awards may, in the future, be the means of recognizing services to the profession rendered by men working in government, business, or education."

"but the committee decided that the purpose of the award was more to recognize outstanding service of a public nature which benefited the public as a whole as

well as the profession."

1. "No award should be made for anything but a contribution truly outstanding.
2. Awards should not be made for service of what might be termed a regular or an intra-professional nature, such as service as president or chairman of a committee of one of the professional societies."

"The thought also arises that the two awards might on occasion be merged into one if an outstanding piece of writing should constitute also the outstanding service of the year to the accounting profession.

"The proposition that a performance entitled to an award may extend over a period of years is well illustrated by that which the committee recommends be recognized at this time."

Based upon the foregoing the committee on awards submits the following suggested changes in the number of these awards and for outstanding service to the profession:

The report of the subcommittee dated October 12, 1943, establishing these annual awards reads as follows:

"The American Institute of Accountants would establish three annual awards as follows:"

It is suggested that the foregoing be changed to read as follows:

"The American Institute of Accountants would establish annual awards as follows:"

The subcommittee's report with respect to item (1) reads as follows:

"(1) For outstanding service to the accounting profession within the award year."

It is suggested that the foregoing be changed to read as follows:

"(1) For outstanding service to the accounting profession:

- (a) It is contemplated that in each year unless circumstances warrant otherwise, the committee on awards will limit this to one award and that preference be given to such outstanding serv-

- ice performed within the award year.
- (b) Should the committee on awards determine that two or more members of the Institute have performed outstanding service to the profession within an award year, it may in its discretion, recommend more than one award.
 - (c) The committee on awards may, in its discretion, recognize outstanding service to the accounting profession by persons engaged in governmental, business, or educational activities and recommend an award for such service.
 - (d) The committee on awards may recognize, in its discretion, outstanding service to the accounting profession which has been performed over a period of years.
 - (e) No award should be made unless a contribution is truly, outstanding."

The committee on awards recommends for the guidance of future committees the adoption of the above amendments to the report of the subcommittee dated October 12, 1943.

The committee on awards recommends that N. Loyall McLaren receive the Institute award for the year 1948 for the outstanding book or article of the year in the field of accounting or auditing.

Mr. McLaren's book was published in the latter part of 1947 and is entitled *Annual Reports to Stockholders*. This book contains, in the opinion of the committee, a new approach to the problem of analyzing published annual reports and financial statements of companies and presents in simple language analyses of these statements so that a stockholder may more readily understand the financial statements of companies in which he is interested.

The committee on awards directs the attention of the council to the problem faced by the committee in determining the recipient of this award. Usually there

are not many books to review but there are a substantial number of articles written and published each year. This is a task of considerable magnitude. The members of the committee are engaged in their regular occupations and can only devote a limited amount of time to this task. It needs assistance to enable it to thoroughly cover this field. It is recommended that during each year the Institute staff canvass approximately one hundred leaders in the accounting profession, the educational and industrial field and other accounting organizations, requesting them to bring to the attention of the committee those books or articles published during the year, which, in their opinion, were outstanding and should be reviewed by the committee and considered for the Institute's award. This would limit the number of books and articles to be reviewed by the committee.

The committee also faced the problem in this category of being limited to one award. It had before it an article written by a member of the Institute which merited serious consideration for an award. The article contained a new approach to a very difficult problem facing the accounting profession and was a direct challenge to our thinking. This is another of those situations that would probably not occur again over a period of years. Based upon its experience the committee on awards suggests the following changes in the report of the subcommittee dated October 12, 1943, for the guidance of future committees.

The report of the subcommittee dated October 12, 1943, establishing the award for the outstanding book or article in the field of accounting or auditing read:

"For the outstanding book or article of the year in the field of accounting or auditing."

It is suggested that the foregoing be changed to read as follows:

- (1) "For the outstanding book and/or article of the year in the field of accounting or auditing."
- (2) The committee may combine the award for the outstanding book and/or article of the year in the field

of accounting and/or auditing when such book and/or article also constitutes the outstanding service of the year to the accounting profession.

The purpose of this award is to encourage members and others to write books and articles on accounting and auditing. This change would enable your committee to recommend more than one award if warranted by all the surrounding circumstances. The committee should endeavor wherever possible to limit its recommendation to one award in this category. The committee on awards recommends the adoption of the above change in the report of the subcommittee dated October 12, 1943.

The committee on awards has no recommendation to submit with regard to outstanding research work by a student in accounting or auditing. Diligent effort was made to devise a plan whereby the committee might obtain the assistance of educators in accounting schools and others. When one considers the number of students in accounting throughout the United States, the problem of selecting appropriate topics, the assembling of the papers, the review of the topics and papers and the selection of the outstanding piece of research work, the size of the task becomes apparent. The committee cannot satisfactorily perform this task without assistance from the staff of the Institute. The Institute staff will not be in a position to give the type of assistance needed until the position of director of education can be filled. Furthermore your committee is of the opinion that the award is inadequate and would not interest the average student. Under present conditions it is difficult to obtain the interest and full cooperation of professors in accounting and hence obtain the interest of the average student. As one of the members of the committee has so aptly expressed it, "I find it very difficult to develop any enthusiasm over the granting of medals or dollar amounts to a large number of students throughout the country. I think it is a sad commentary on the American way of things when somebody can collect a 20 or 30 thousand dollar prize for

identifying the "Walking Man," when the award for a lot of hard work of a constructive nature turns out to be either a piece of metal which, according to all the dictates of modesty, must be stored in the bureau drawer, or the money goes for two or three days' groceries." Your committee therefore, recommends that this award for outstanding research work in accounting or auditing by a student be discontinued until such time as the Institute has engaged the services of a director of education who can assist in developing ways and means of establishing a student award on a practical basis. In this connection the committee desires to present to the council of the Institute what it believes to be a constructive suggestion and warrants consideration. The committee believes that the Institute should develop a more substantial award for students. It recommends that the Institute establish scholarships to assist students majoring in accounting in the various accounting schools throughout the country. It should be limited to those students who have expressed their intention to enter the accounting profession upon graduation. The number of such scholarships should be limited and it is suggested that the scholarships cover the tuition of the student for one, two or three years. It is believed that the establishment of these scholarships would make the Institute a vital force in raising the standards of accounting education throughout the country. Such scholarships could be used to encourage accounting schools to meet educational standards established by the American Institute of Accountants. The committee recommends to the council the establishment of these scholarships and that the number of such scholarships, the providing of funds for this purpose, and the rules and conditions under which they are to be awarded be left to the discretion of the executive committee, with power to act.

Respectfully submitted,

| | |
|-------------------|---------------------|
| J. ARTHUR MARVIN, | PAUL J. GRABER |
| Chairman | CLARENCE L. JOHNSON |
| ROBERT L. DIXON | PRIOR SINCLAIR |

September 8, 1948.

Committee on Education

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The report of the Committee to the Spring Session of the Council on May 3, 1948, included a statement of objectives. This is a report of progress since that date.

In connection with encouragement of the development of the internship plan, there is in the draft stage a proposed booklet titled *Internship Training in Public Accounting*. The committee discovered that there is a rather surprising lack of published material on this subject and proposes to distribute the booklet to all members of the Institute and to the business schools. Evidence currently coming to the committee continues to point up the value of the internship idea as valuable experience to the student and as a means of selecting graduates for permanent employment. The booklet will deal with the advantages of the plan, how to get started, and the respective responsibilities of the student and the firm.

The last report of the committee mentioned the sending of a questionnaire to 60 collegiate schools of business administration to determine whether they had an internship program and, if not, how they felt about it. We received 53 replies. Thirty-seven, or 70% reported having such a program of being willing to explore the possibility of developing it. Sixteen, or 30%, doubted the feasibility of the plan in their particular area, although they realized the potential benefits. Of the 37 reporting favorably, 16 have such a plan now in effect. Thus, there already are available to the profession a considerable number of schools who can furnish interns. It is hoped the number will greatly increase in the next few years. The University of Texas has instituted a new degree "Master in Professional Accounting," including as a requirement "six months of successful full-time internship training in public or industrial accounting." The American Ac-

counting Association has appointed a special committee to cooperate in the promotion of internships.

Another project of the committee is to explore the possibility of developing co-operative staff training programs primarily for the use of the moderate size and smaller firms whose principals find especial difficulty in devoting sufficient time to staff training. The members attending the Middle Atlantic States Accounting Conference at Myrtle Beach, South Carolina, on June 12, 1948, indicated an interest in developing such a program in a few of the larger cities in that general area. They hope that the Institute will help substantially in developing training material and in the initial organization of the program. Other areas have shown an interest also. Any development of such a program must wait upon the acquisition of a full-time educational director, and the committee is very glad to learn that the current budget of the Institute has provided funds for that office.

The Graduate Study Conference at Michigan was held as scheduled in June and was a real success. All of those attending feel it should become a permanent affair. The opportunity to meet, personally, individuals active on the various technical committees of the Institute and to benefit by discussions with these people in small intimate groups was unique for the great majority of those attending. Especially did they appreciate the chance to fire questions at Carman Blough in a long informal evening session. This conference brought together members of the accounting faculty of several outstanding universities, important representatives of the Institute, and the conferees in a manner that was extremely useful to all. This kind of conference fills a need which cannot be met effectively by large meetings of the hotel convention type.

The second graduate study conference was held at Harvard last week and was

equally successful. Messrs. Stans, Wellington, Austin, and Cranstoun were the lecturers and Messrs. Boynton, of Charles F. Rittenhouse & Company; Chamberlain, of Price, Waterhouse & Co., Boston; Professor Hassler of Harvard; and Professor Mannix of Boston University, acted as discussion leaders. Mr. Fitzgerald, public relations counsel for the Institute, spoke at a dinner meeting. Professor Sanders acted as leader of the informal evening discussion session which is so important a part of these conferences.

The conference attendants lived together in a university dormitory and a large percentage came from communities other than Boston. While a formal poll

has not as yet been made of the conferees, the enthusiasm expressed indicates the success of the meeting and a desire to continue in subsequent years.

Similar conferences in new locations next year are being considered in Texas and California.

Respectfully submitted,

JOHN W. McEACHREN, *Chairman*
HERMAN W. BEVIS
WILLIAM BOYNTON
ALEXANDER EULENBERG
MARSHALL M. THOMAS
RAYMOND G. ANKERS
WILLIAM D. CRANSTOUN

September 20, 1948.

Committee on Refresher Courses

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on refresher courses did not meet during the year. By correspondence among committee members and by questionnaires directed to selected groups of accounting teachers and public accountants an effort was made to ascertain opinion on the need of a revision of *Contemporary Accounting* at this time. This survey indicates that a revision should not be undertaken. The majority of the committee members reached this conclusion because:

1. The present edition has only limited use as a reference and is not currently in use as a text in college courses or as material for staff training in public accounting.

2. *The Journal of Accountancy*, the Institute research bulletins, and the latest editions of accounting texts provide the material that is generally required for school and firm use.

One committee member is of the opinion that the enthusiastic reception of *Contemporary Accounting* suggests the desirability of publishing revisions from time to time on a more permanent basis.

He stresses the importance of a fairly complete discussion of contemporary accounting problems under semi-official sponsorship and states that a simpler revision might be highly useful in training classes for advance staff members, seminars for advanced accounting students, discussions at state society meetings and regional conferences, and for review and reference by all practicing accountants. Another member of the committee is of the opinion that a careful revision with chapters appropriate for advanced study and staff training would be widely used.

The questionnaires returned by accounting teachers and by public accountants support the views of the majority of the refresher course committee that there is little current demand for a revision. Replies from more than 30 schools estimated that only 166 copies would be needed. Of this number of copies approximately two thirds were for reference purposes and one third for text use. Only the latter use would be recurring. If the sample is representative, only a limited demand for copies can be expected from this source.

Out of more than 30 replies from public accounting firms only two indicated substantial use of a revision in staff training.

The others estimated that one or two copies for reference purposes would meet their requirements.

The committee has obtained many valuable suggestions for a revision which should receive consideration if one is undertaken. Because the prevailing opinion is against a revision at the present

time, these suggestions are not included in this report.

Respectfully submitted,

T. W. LELAND,
Chairman

ALMAND R. COLEMAN
GEORGE N. FARRAND

September 15, 1948.

RUSSELL F. COHN
W. W. LITTLEJOHN
HARRY E. OLSON
FRANCIS E. ROSS

Committee on Selection of Personnel

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The mid-year report of the committee summarized the past history of the selection project, listed the benefits so far obtained from it, and presented the highlights of a discussion with respect to its future course. The report was accompanied by factual and statistical data. It does not seem to be necessary to repeat that somewhat lengthy report at this time, except to highlight two significant points made therein:

(a) That the principal emphasis of the program is now on operations rather than on research.

(b) That a practical and economical basis for operation is still to be devised and put into effect.

The committee and the project office have devoted a great part of the considerable amount of time they have spent on the project during the last six months in study of what might almost be called this market research problem.

Certain conclusions stand out quite clearly:

(a) That although testing at the point of employment may produce some financial support for the project for a limited time and is, in fact, producing income today, the only permanent source of income on which we can rely is from testing at the collegiate level, initially in guiding students into or away from a course of specialized accounting study and, later, in connection with student placement.

(b) That failure to develop within reasonable time a balanced budget based

on income from testing at the collegiate level would probably lead to a recommendation by the committee that the project be abandoned, except to the extent that it might be carried on through voluntary grants by member firms or others.

With these considerations in mind, the committee and the project office have developed a revised program of operation and a related budget. The objective of the program has been to eliminate most of the research phases of the project and to emphasize those phases which might expedite efficient operation at the collegiate level. The budget is based on factors with respect to which none of us is competent to estimate. It represents perhaps nothing more than our first attempt to bring the financial problems of the project under control. Our guesses show operating deficits (after allowing for income from the sale of tests at revised rates now decided upon) as follows:

| | |
|----------------------|--------------|
| 1948-49 | \$14,000 |
| 1949-50 | 9,000 |
| <u>1951-52</u> | <u>4,000</u> |

It is expected that there will remain at August 31, 1948, from funds donated by sponsoring firms and the Institute, \$10,000. In addition, the Institute has set aside appropriations of \$10,000 for each of the years 1948-49 and 1949-50. It will be evident that the funds available will carry us forward for perhaps another three years, but it must be emphasized that we are not prepared to recommend that the project be carried forward for any such length of time unless reasonable

current adherence to our projections makes it clear that our objectives are likely to come close to realization.

Another conclusion that has been brought home most forcibly to the committee is that we have perhaps neglected to anticipate during research the "selling" which would be necessary in order to operate. The Collegiate Testing Program is now to some extent stalled on dead center—the colleges aren't as interested as they might be in giving the tests because employers aren't requiring score cards—employers aren't asking for score cards because colleges aren't producing enough of them. We believe that proper effort applied at the right point would give the project forward impetus and cure this situation. With this in mind we have enlisted the help of the Institute's Public Relations Department and with their help we are now developing a comprehensive campaign for the presentation to the interested parties of statements of the benefits that can accrue to them from utilization of the project's facilities.

The committee has decided to publish, as part of its publicity program, a small brochure listing the names of those member firms who have undertaken to recognize the results of American Institute tests in selecting individual personnel, and a circular was sent out at the end of August inviting member firms to permit the use of their names in this pamphlet. We believe that the publication of this pamphlet will do much to convince students and educators of the seriousness with which we regard this project and of the advantages to all concerned in participation in it. In this connection, we would like to use this report as an occasion to solicit the active cooperation of members of the Institute. It is recognized that some time must elapse before all college graduates will be able to present, as part of their applications for employment, a statement of their scores in our tests. However, we believe that this period of waiting can be reduced in direct proportion to the number of requests made by employers for those scores. Employers who will make it part of their

policy to ask all applicants for these cards, can render a tremendous service to the project.

It will be evident that a successful college testing program must depend on effective liaison with professors of accounting. With this in mind, we have established close and friendly relations with the American Accounting Association, particularly through Dean Thomas A. Budd, Chairman of the Association's Committee on Testing. During the last six months Dr. Budd's committee has rendered us valuable service, not only in connection with the development of effective testing material, but also in counseling us as to the financial basis on which the program should be set up.

The project office has prepared, as its Bulletin No. 5, a comprehensive report relating to the tests given in ninety-nine colleges and universities in connection with its Spring 1948 program. This pamphlet, like its forerunners, evidences not only the worthiness of and need for our project, but also the high scientific caliber of the work which Drs. Ben Wood and Arthur Traxler and their associates are giving to that project on a basis which obviously provides no financial inducement to them.

It will be recognized that some of the enthusiasm developed during a research program meets discouragement when faced with the necessity for operation on a hard economic basis. While optimism with respect to the future of this project is not evenly spread throughout the membership of the committee today, we are confident that our present program, within reasonable time, should establish whether this project can support itself on an operating basis or whether we should settle now for the not immaterial benefits which research has yielded. The presentation to council of a report in these terms is evidence of our hope that the former conclusion will be reached.

Respectfully submitted,

HAROLD R. CAFFYN, ALVIN R. JENNINGS
Chairman EDWARD A. KRACKE
PERCIVAL F. BRUNDAGE WARREN W. NISSLEY
September 8, 1948.

Committee on History

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The work on accountancy history during the past year has been along three lines as follows:

1. Correspondence with state society historians, partly to furnish to them references to sources of information as to matters about which they had inquired, and somewhat more often to bring to their notice matters in which they might be interested and willing to study.

2. Research for and classification of facts relative to the first twenty years, 1886-1906, of the American Association of Public Accountants. This was undertaken to comply with a suggestion from the Institute that as soon as possible there be prepared for possible publication a manuscript upon some phase or section of the history of the profession in this country. Since the earliest Year Book of the AAPA was that for 1906, it seemed that a story of the preceding twenty years would be useful and might be interesting. However, it was found that the readily available source materials were incomplete. Although the minute books had been preserved and were useful, they were too brief as to some matters and silent as to others. There were practically no books of account and only few of the known publications. Therefore, although some progress has been made, perhaps as to about one quarter of the whole, this work was laid aside for a time in order to concentrate upon and complete the third line of the work of the committee.

3. Index of American accountancy history materials in three British periodicals from 1874 and twenty-two American periodicals from 1880. The British publications were all accountancy journals as were all but three of the American publications—two being financial journals and one devoted to banking law but all three carrying much accounting news. No issues were found of two periodicals—one *Treasury* during 1884-1886 when it was the only such publication in the United States, and the other, *Accountant and Financier* which in 1892 stated "published under the auspices of the American Association of Public Accountants."

However, nearly complete files of the other periodicals were located and indexed. Attached hereto is a schedule showing that the twenty-five periodicals covered a total of 289 years and consisted of 195,709 pages from which there were indexed a total of 17,002 items, of which 13,248 items were about associations, individuals, and firms; 1,883 items were about the relations of public accountants to their clients, the public, and other practitioners; and 1,871 items were technical articles most of which were published before 1912 and may not have been listed in the *Accountants' Index*.

This work is completed except for the typing of the indexes of two periodicals. Its cost to August 31, 1948, paid from the appropriation of \$10,000 made available to the committee in January, 1947, has been a little less than \$5,000, consisting of the salary of one clerk-typist, \$4,250; the cost of \$419.62 of nearly 600 photostats of pages from periodicals which were procured for the Institute library; and miscellaneous expenses including postage, expressage, etc. of \$260.52. The photostats and the transportation expenses were because, in addition to the use of the volumes in the Institute library, periodicals were borrowed from the Library of Congress, New York Public Library, and the libraries of Columbia, Illinois, Minnesota, New York, Tulane, and Yale Universities.

The results of this work will consist of five copies of Indexes totaling about 350 pages each to be placed in the Institute library for consultation or loan under its rules. The value of the work is indicated in part by the fact that the materials thus located and indexed have already been found to supply some of the facts about the American Association of Public Accountants which were merely referred to or not even mentioned in the minute books.

Respectfully submitted,
NORMAN E. WEBSTER, *Chairman*

September 17, 1948.

From 1874 to 1906 or Later

[illegible]

Advisory Committee of Individual Practitioners

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Following the meeting of the American Institute of Accountants in November, 1947, this committee was newly created. The primary purpose is to develop a program to meet the needs of individual practitioners, most of whom have local practices. As a secondary purpose or a by-product of the primary object, it is expected that the work of the committee will publicize the work of the Institute which is now available to local practitioners and further will stimulate their interest in the Institute and its program.

It is expected that the committee will develop recommendations for enlargement or improvement of the Institute services which are of peculiar usefulness to the individual practitioner. When such recommendations have the approval of this committee, they will be forwarded to the executive committee of the Institute for appropriate action. In other words, this committee is merely advisory but offers a "sounding board" which is available to local practitioners for expressing their constructive criticisms and suggestions and knowing that their ideas will be heard.

Your committee believes that it would be unfortunate to consider that the members of the Institute fall into distinct classes with separate interests; nevertheless, it is important that our entire membership may feel that the interests of all are being carefully safeguarded and served. It is true that individual practitioners, who generally have the smaller practices of local limitations and yet who represent the majority of our membership, have problems which are peculiar to them. Further, they do not have the resources and facilities for obtaining the "answers" which are available to the larger firms which are usually national or international in scope. Therefore, it is important that the reservoir of informa-

tion and guidance possessed by the Institute be made fully available and useful to them.

In the nine months which have elapsed since the committee was created, a considerable exchange of correspondence has been effected, resulting in a number of expressions of need and recommendations for services of the Institute to meet those needs. These suggestions at this point are individual expressions and the committee as a whole has had no opportunity to give them sufficient consideration to formulate approval or disapproval. Therefore, this report will be confined to a brief listing of these ideas but, as stated, they do not represent the authoritative recommendations of this committee. A meeting of the committee is to be held during the Chicago convention, at which time it is expected that definite recommendations will be developed to be forwarded to the executive committee for consideration and action.

Publicity

The greatest need expressed by the greatest number of members of this committee is for education and information of the public concerning our profession. The subjects which have been suggested as needing publicity are:

- The meaning of certified public accountant

- The meaning of the opinion or certificate

- Distinction between CPA and PA

- Professional ethics

- Bidding

The suggestion was made that the Institute should employ professional publicity experts to guide in this program.

Manual of Auditing Procedure

Several members suggested that there should be developed for the guidance of local practitioners a staff manual of auditing procedures. Some suggested that

this manual should be extended to cover the administrative side as well as the professional problems in the operation of a practice. Many think it would be helpful to revise and publish again the "Verification of Financial Statements."

Staff Training

It was suggested that there be developed a staff training outline for small organizations using the present *Contemporary Accounting* and the above suggested manual. Staff training should include the problem of public relations as well.

Internal Administration

It was suggested that the Institute develop a study of the accounting systems in use in various offices, especially the smaller ones. Further, that material be developed on the modern partnership forms and practices and how to value a practice.

The Journal of Accountancy

Several suggestions were made that *The Journal* focus attention on articles of interest to the local practitioners, especially those dealing with audit techniques including case studies, office procedures, detection of defalcations. Some of these articles could best be written by authors chosen among the local practitioners. One member suggested that articles previously published of direct interest to smaller practitioners might be assembled in one publication, or at least indexed.

Protect CPA Certificate

As it has been in the past, the Institute should be aggressive in helping to prevent legislation in the various states adverse to the CPA certificate.

Educate Individual Practitioners

Several varieties of suggestions were made designed to improve the understanding of local practitioners of the Institute and its services by inviting them to work on important committees, and seeing that they are well represented on

the council and in important positions. The Institute officers could help by giving more time in visiting the smaller societies. Direct attention should be given to publicizing the work of the Institute and the services now available and aiming such publicity at the local practitioner. The individual practitioner should be encouraged to submit his technical and administrative problems to the Institute for help.

Publicize Work of Our Committee

If this committee is to be of utmost value, the local members should be aware that it is working in their interest; therefore, proper means of informing them should be adopted such as editorials and articles in *The Journal* and having members of this committee on regional programs.

Survey of Needs

It was suggested that our local members everywhere be asked to answer a carefully prepared questionnaire indicating the needs which they feel could be better served by the Institute. Such a survey would help to publicize the work of the committee.

Placement

It was suggested that procedures be developed to help the local men to do a more scientific job of selection of personnel; also that the Institute offices be available for placement of members.

Committee Continuity

Since the effectiveness of this type of inquiry takes time to develop full force, some suggested that there be a reasonable continuity of membership so that the interest which is being gradually developed may be continued without interruption of direction or intensity.

Respectfully submitted,

RALPH B. MAYO, *Chairman*

September 10, 1948.

Committee on Natural Business Year

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Your committee reports gradually increasing interest in the natural business year, as indicated by a gain in the number of requests for information from members and from state society committee chairmen, and by three noteworthy articles in important industrial publications. These articles, prepared with the cooperation of the public information department, appeared over the signature of your committee chairman.

One of the articles, entitled "Better Planning through the Use of the Natural Business Year," appeared in the May issue of *Pit & Quarry*, key magazine in the cement industry. The natural business year for the coal industry is discussed in the June issue of *Mechanization*. "How To Eliminate Accounting Guesswork: Natural Business Year for Candy," is the title of an article which appeared in the August issue of the *Manufacturing Confectioner*.

Though not prepared in the American Institute office, an article on the natural business year appeared in the June issue of the *Bulletin* of the Robert Morris Associates. Written by H. T. Riedeman, vice president of the Industrial National Bank of Chicago, this article points to the American Institute of Accountants as the spearhead of the movement to promote the use of natural business year closing dates. It is also interesting to note that an article entitled "Advantages of the Natural Business Year to Management" appears in Section One of the *Bulletin* of the National Association of Cost Accountants, dated September 1st of this year.

Your committee reminds the Council that a considerable time has elapsed since any new material bearing on the proper closing dates for business and industry in general has been assembled. Before the outbreak of hostilities in World War II,

a long list of suggested closing dates had been prepared and used as the basis for a natural business year pamphlet and for answering questions relating to closing dates for various businesses. However, the war period served to reduce the peaks and valleys in production, and resulted in a long series of years marked by maximum production without emphasis on closing dates.

Although in many cases month after month production continues at peak points, the question has arisen whether the time has not come to re-examine the original closing dates to see if they again can be recommended for companies which are returning to "normal."

On the above basis, your committee recommends that a series of studies be undertaken to determine whether original dates are again to be recommended or whether postwar conditions have created new natural business years in certain industries. Many of the basic studies on which the originally suggested lists were prepared were made with the cooperation of Dun & Bradstreet. Your committee requests approval of Council of the proposal that a new series of studies be undertaken and that the American Institute staff be authorized to explore the subject of industries to be studied and the general cost of such studies with Dun & Bradstreet.

Your committee believes the time soon will come for renewed activity in promotion of the natural business year and recommends that new and authoritative information as to proper dates will be an essential need.

Respectfully submitted,

WALTER F. KUHN, *Chairman*
EMMETT S. HARRINGTON
WALTER E. HEIDER
HENRY KNUST
ROY L. WARD
L. C. J. YEAGER

September 10, 1948.

Committee on Professional Ethics

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since the May meeting of Council, the committee on professional ethics has held one full meeting, and another meeting of the committee is to be held during the annual meeting at Chicago for the purpose of conferring with partners of an accounting firm which has been the object of criticism by the Securities and Exchange Commission. Most of the work of the committee has necessarily been done by correspondence.

Analysis of Cases

46-10. This case was reported to the executive committee and the member involved has been summoned to appear before the trial board in answer to the complaint.

48-3. A simultaneous complaint was made to a state society of certified public accountants and to the Institute alleging violation of Rule No. 7 of the Rules of Professional Conduct on the part of a member. In view of the action taken by the state society concerned, and the member's statement that he did not knowingly violate the rules, and his assurance that the practice complained of would not be repeated, the committee has closed the file in the case.

48-4. The committee received a complaint from an accountant, alleging unprofessional conduct on the part of a member formerly associated with him in the practice of public accounting. The record in the case has had the study of the committee, and a member of the Council in the city of residence of the accountants concerned, at the request of the committee, has discussed the matter with them. After full and thorough consideration of the matter, the committee found no grounds for action and has therefore closed the file in the case.

48-5. The committee has received from the Securities and Exchange Commission a release in which a firm of accountants, of which partners are members of the

Institute, is mentioned in a manner which suggests the possibility of violation of the Rules of Professional Conduct. A report from a state society of certified public accountants of its consideration of this matter has been received, and at the request of the members concerned, the committee has withheld action in the case pending a conference with members of the firm, before proceeding with its investigation.

48-6. The committee received a report that the application of a member of the Institute for a reciprocal CPA certificate, in a state having a regulatory CPA law, had been denied because he engaged in public accounting practice in that state prior to obtaining a certificate. The committee has requested an opinion from the committee on state legislation of the Institute.

Summary of Inquiries and Responses

Q. For eight years we have had a refinery and its subsidiaries as a client. Due to a reorganization several years ago, the controlling stock interest of the client-company was acquired by an oil company in another state, and this last year the oil company was acquired by another company. The company which has acquired the refinery and oil company is the client of one of the large national accounting firms. Would it be contrary to the rules of conduct of the Institute for my firm to write to the petroleum company and possibly to the accounting firm, in an effort to retain this client?

A. There would be no violation of the rules of conduct of the Institute involved if you should communicate with the petroleum company and the accounting firm in an effort to retain your client.

Q. The court has authorized the administrator of an estate of a CPA to conduct his practice during probate. The administrator has engaged a CPA to handle the tax work for the estate's

clients, but all clerical work is to be done by the office of the estate, which is still maintaining the office of the deceased accountant under the supervision of an office manager, who is a public accountant. The certified accountant maintains his own office and advances all necessary funds for payment of expenses in processing the tax accounting work for the estate, and furnishes data to the estate, from which clients are billed and payment made direct to the estate. All moneys collected by the estate for work done by the certified accountant are turned over to him until such time as he is fully reimbursed for all his expenses. Thereafter all collections on work done by the certified accountant are to be split between the estate and the accountant on a basis to be determined by the accountant and the estate's representatives. Would this arrangement be in violation of the rules of conduct of the Institute?

A. This is a situation which might be open to criticism if the procedure were to be continued, but in view of the court order it is acceptable to the committee because of its temporary condition.

Consideration of Proposed Additional Rule

The committee discussed a written proposal received from a member that a rule be adopted "forbidding a member to serve as the auditor of an enterprise conducted for profit which has outside stockholders or seeks credit or use of audit financial statements outside the company circle if such member is also a director of such corporation." It was decided not to endorse such a rule at the present time, but to recommend to next year's committee that study be given to the desirability of an amendment to Rule 13, possibly requiring disclosure when a member expresses an opinion upon the financial statements of an enterprise in which he serves as a director.

Respectfully submitted,

DONALD M. RUSSELL, *Chairman*
PARRY BARNES
EARL A. WALDO
C. OLIVER WELLINGTON
RAYMOND D. WILLARD

September 19, 1948.

Committee on Regional Conferences

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: In the majority of cases, state societies of certified public accountants have accepted the recommendations offered by your committee in its report of last April for sponsorship of regional accounting conferences.

Difficulties have arisen in connection with the committee's suggested grouping of states to continue the Central States Accounting Conference and to initiate and sponsor the proposed new Great Lakes Accounting Conference. Four state societies, those of Illinois, Indiana, Ohio, and Wisconsin, have voted through their directors to join the Great Lakes Accounting Conference group. In order to do this, the societies of Illinois and Wisconsin would withdraw from the Central

States Accounting Conference.

Such change has been protested by the Missouri Society of CPAs, on the ground that withdrawal of Illinois and Wisconsin will seriously weaken the Central States regional meeting. Your committee believes this situation makes it necessary that the problem of sponsor alignment for the two conferences be discussed by the states involved, and has asked for interchange of state society ideas in the course of the American Institute annual meeting period in Chicago.

Other groupings suggested by your committee in its April report have been accepted. The sponsorship of the Middle Atlantic States Accounting Conference, which held its 1948 sessions last July, continues along the original state lines. The same is true of the Mountain States

Accounting Conference, which will meet next November, and of the Southern States Accountants Conference, due to meet next spring. There is state society acceptance also for continuance of the original sponsor grouping for the New England Accounting Conference.

Your committee strongly feels that the final alignment of state society regional conference sponsoring groups can be effected only after free and open discussion, as suggested in this report. The choice of a state society as to what regional conference it desires to sponsor is entirely a matter of free action by that state society.

It is the continuing belief of your committee that the alignment of state sponsoring groups as suggested in its April report is the best approach to the problem of making sure that every state society is among the sponsors of regional conferences, but your committee has gone

as far as it can without interfering with the basic right of societies to sponsor conferences of their own choice.

It is requested by the committee that council go on record as approving the suggestion that open discussion by the societies involved is the next needed step in development of the regional conference plan. It is the further suggestion of your committee that the American Institute staff be authorized to initiate any further interchange of correspondence or action which may be decided upon as necessary on the basis of this discussion.

Respectfully submitted,

MARQUIS G. EATON, *Chairman*

HARVEY T. CASBARIAN

BENJAMIN E. JAMES

LINCOLN G. KELLY

HAROLD C. UTLEY

WALLACE W. WILLARD

September 18, 1948.

Committee on State Legislation

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: At the meeting of the council held at Grove Park Inn, Ashville, North Carolina, on the afternoon of Monday, May 3, 1948, about two hours were devoted to a discussion of the subject of regulatory legislation.

Certain factual data on the subject which were requested at the final session of the previous council meeting at Miami Beach was compiled by the staff to the extent available during the intervening period and was transmitted in advance of the session to every council member.

Summary of Discussion

After the presentation of the report of your committee to which was appended the factual data mentioned the subject was brought up for discussion through the medium of a resolution which, if adopted, would have changed the Institute's present position of favoring legislation which would register uncertified account-

ants as a dying class as a preliminary step to closing the profession, to a position of favoring legislation having only to do with the issuance of CPA certificates and the disciplining of the holders thereof.

Nearly two hours of discussion indicated that wide differences of opinion continue to exist among the members of the council on this question.

Eight speakers stated they were in favor of abandoning the Institute's present position. Five of these speakers were from states which do not at present register non-certified accountants; two were from states which had registered non-certified accountants more than twenty years ago; and one was from California which passed a regulatory law in 1945.

Seven members of council spoke in favor of the present position on CPA legislation. Four of these speakers were from states which at present do not register non-certified accountants and three speakers were from states with regulatory laws, two of long standing, and one

from Texas whose regulatory law was passed in 1945.

Three other members spoke on the subject without expressing any opinion on either side of the question. One of these suggested that both tax practice and the certification of financial statements should be considered as being encompassed by the public practice of accountancy; another wanted more information on the protection of the public through the registering of non-certified accountants; and the third suggested a study of the policing devices presently in use to protect the public.

The discussion was brought to a close by the adoption of a motion to table the resolution. Previous expressions of the council favoring regulatory legislation continue therefore to be the official policy of the Institute on this question.

Legislative Policy

It has been stated on many occasions that the American Institute does not interfere in the determination of the type of CPA legislation in any state. That decision should be made by the certified public accountants of the state involved in their free and untrammelled judgment.

It has happened that some features of a CPA law which have been considered highly desirable from a professional viewpoint have not been received by the legislators with equal enthusiasm. For example, in some states the professional has been able to have a college degree established as an educational prerequisite for taking the CPA examination whereas in another state the legislature has been loath to close the examination door to non-high school candidates. Other comparisons of high and low standards as between states will readily be recalled.

Thus it is fitting and proper that the national organization of certified public accountants should endeavor to establish and hold to the highest standards for admission to the profession leaving to each state the determination of when and how such high standards may be attained.

It is doubted that there be one certified public accountant who would not like to

see the certification of financial statements legally recognized as one feature of the practice of accounting which should be performed only by certified public accountants who have qualified themselves for the task by passing an appropriate examination. This is the goal presently set by the legislative policy of the Institute.

The attainment of this goal cannot be accomplished on a national basis at one fell swoop; it must necessarily be done on a state-by-state basis. Yet the procedures adopted or suggested to accomplish this goal in the several states have precipitated long-drawn-out discussions at state society and at Institute sessions and have created differences of opinion tenaciously held by many CPA's.

Since the final decision as to method of accomplishment must be made by each state separately and since no single method appears acceptable to CPA's in all states it seems futile for the Institute to continue to provide at its council meetings and its annual meetings a forum for the advocates of opposing methods.

If the principle is accepted let each state devote its energies to the accomplishment of the principle in its own state in the light of the circumstances found there to exist. What is sauce for the goose is not necessarily sauce for the gander. No one person or group such as your committee can possibly know intimately and completely the conditions affecting CPA legislation existing simultaneously in all of the states to the extent necessary to pass judgment on the timing of CPA legislation.

Definition of Public Accounting

Forty to fifty years ago, when the initial CPA laws were passed in the states which pioneered in recognizing that there was such a thing as the practice of public accounting, no definition of such practice was spelled out.

Recently criticism has been heard that the Institute has not seen fit to define the practice of public accounting but has instead adopted a negative approach by advocating restriction of the use of the

titles certified public accountant and public accountant only with regard to the certification of financial statements.

It seems crystal clear that it is indeed fortunate for those of us who came after the pioneers of the profession, that the initial CPA laws did not attempt to define all inclusively and thus limit the practice of public accounting only to the activities which were in the early days being pursued by public accountants. For example, the first law dealing with income taxation on the part of the federal government was not enacted until 1909 and the constitutional amendment permitting the present type of federal income taxation without apportionment was not adopted until 1913. That such matters could have been anticipated and included 50 years ago in a definition of the practice of public accounting is not expected by anyone. Yet the suggestion has been made that a specific definition of the practice of public accounting should be promulgated by the Institute based on current conditions.

To believe that certified public accountants in the future may not find any activities with which to occupy themselves professionally other than those presently pursued is to discount the future growth of this nation and of the accounting profession to a much greater extent than your committee is willing to do. Accordingly no change in method of defining the practice of public accounting is submitted.

Tax Practice as a Phase of Public Accounting

At the last meeting of the council it was suggested that some agreement with

the lawyers as to tax practice by CPA's might be worked out in the future which could be recommended for inclusion in CPA legislation. Pending a final decision in the *Bercu* case it would seem premature to suggest any definite phraseology on tax practice, but this is a matter which undoubtedly will receive the attention of future committees.

Legislative Kit

Recently the chairman of your committee collaborated with the Institute's Director of Public Information in the preparation of some of the data included in the Legislative Kit which has been prepared for the use of committees on legislation of state societies. Nothing set forth in the suggestions therein contained deals with the question of regulatory legislation. The kit merely outlines procedures which have been used successfully in some quarters in combating unfavorable legislation and in introducing and obtaining the enactment of laws or amendments to laws.

Respectfully submitted,

JOHN H. ZEBLEY, JR., *Chairman*
FRANK A. BOLAND
ROY C. COMER
JOHN R. F. COWAN
STANLEY V. DAVIES
W. WALLER GROGAN
JOEL D. HARVEY
CLIFFORD V. HEIMBUCHER
SILAS M. SIMMONS
SAMUEL M. WELLBORN, JR.

September 9, 1948.

Committee on Wages and Hours

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Your committee on wages and hours submits herewith its report of activities for the fiscal year of the Institute ended August 31, 1948.

As noted in our report submitted at

the spring meeting of the council, President Wilcox testified in October, 1947, on behalf of the Institute before a subcommittee of the Committee on Education and Labor of the House of Representatives, and the chairman of this committee on wages and hours testified at a

hearing before the Administrator in connection with the rulings under the Act. The testimony in October and in January was supplemented by the filing of written statements.

The Administrator is still considering the testimony and other material offered at the hearings and we have not yet been advised as to what extent, if any, the regulations affecting accountants engaged in professional practice will be changed.

However, several cases have been called to the attention of our committee where local representatives of the Wage and Hour Division have attempted to depart from the old regulations and the salary limit of \$200 per month, and we have endeavored to assist such members by correspondence and otherwise and have advised them to stand their ground and

insist that the local representatives follow the rulings of the Wage and Hours Administrator until such rulings are officially changed.

With the assistance of the office of the Institute counsel we are keeping in touch with developments, and further activity by the Institute committee may be called for in the coming year in connection with any change in rulings proposed by the Administrator or proposed new legislation affecting accountants engaged in professional practice.

Respectfully submitted,

C. OLIVER WELLINGTON, *Chairman*
FREDERICK H. HURDMAN
ERNEST O. LOTHROP

September 13, 1948.

V.

**REPORTS ON COOPERATION
WITH OTHER ASSOCIATIONS**

Committee on Cooperation with Bankers and Other Credit Grantors

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The intervening period from the May meeting of Council to this annual meeting has been one of relative inactivity for the committee on cooperation with bankers and other credit grantors.

The prediction in my May report that discussions of the pamphlet *What Does an Auditor's Certificate Mean?* will continue for some time to come was not an idle one. Your chairman has accepted an invitation to discuss this pamphlet with the Lancaster, Pennsylvania, Chapter of the NACA, and has received an invitation to address a joint meeting of the Rhode Island Society of Certified Public Accountants and of the Robert Morris Associates. The Rhode Island Association of Credit Men are to be invited to participate in this meeting.

Further distribution and discussion of this pamphlet should be, and undoubtedly will be, one of the chief aims of succeeding committees. There is still much work to be done by the profession in order that it may benefit from a greater appreciation by others of the significance of an auditor's certificate. That this is so is evidenced by the following which is quoted from a recent letter written by a banker and a member of the Robert Morris Associates:

"Far too few bankers, including many of the Associates, pay any attention to the accountant's certificate and the details included in his review of things done."

Your chairman has had frequent visits and discussions on matters of mutual in-

terest with Raymond W. Duning, Secretary-Treasurer of the Robert Morris Associates. These informal visits have served a useful purpose in that there has been transmitted to *The Journal of Accountancy* a paper entitled "The Banking Viewpoint—and Statements on Auditing Procedure No. 23—a Banker Is Asked for His Comments" by Edward F. Gee, CPA, Vice-President of the State-Planters Bank and Trust Company, Richmond, Virginia. There is under promise for *The Journal*, also, another article dealing with the purposes for which the banker uses the pamphlet *Examination of Financial Statements* and the benefit he derives from this pamphlet. The members of Council will recall that President Bailey appointed a special committee of three to consider the policy to be followed with respect to meeting the needs of small businesses and bankers, arising from obsolescence of parts of the pamphlet *Examination of Financial Statements by Independent Public Accountants*.

Your chairman was appointed a member of this special committee of three. One meeting of the committee, attended by the executive director of the Institute has been held. As a result of this meeting a start has been made to put into draft form the general approach to the project with which this special committee has been charged. It is not possible at this moment to make a reasonable estimate of the time that may be required for its completion.

Respectfully submitted,

RALPH L. STAUFFER, *Chairman*

September 13, 1948.

Committee on Cooperation with Congressional Appropriations Committees

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The services first rendered by the group of certified public accountants (ten in number—all members of the Institute) constituting a part of the "emergency" corps of investigators for the House of Representatives Appropriations Committee during the first session, 80th Congress, were repeated during the second session ending last June.

The work of this corps of investigators has on various occasions been most appreciatively appraised by members of that Appropriations Committee for the assistance thus given them in the analysis of the budgets of the federal government for the fiscal years 1947-1948 and 1948-1949. The participation of the CPA group in that work has, of course, been as notable as has been their share of this Congressional appreciation of it.

The motivation impelling our CPA group to engage in this work has, of course, been to serve the public interest. It is gratifying that a further reward for this contribution of service to that public interest has been the substantial development of an important goodwill relationship between the nation's representatives in Congress and our profession.

As to the continuance of any such service rendition, events of the future must be determinative. There is no doubt of the desire of those presently guiding the activities of the Appropriations Committee for such continuance of this service of the past if those events of the future mean their continuing to guide the committee's activities, regardless of the outcome with regard to a change or no change in the executive branch of the government. Even if that outcome should mean a closer cooperation between the legislative and executive branches than has been the case during the two sessions of Congress just ended, it is the feeling that the services of these "emergency"

investigators would be equally invaluable during any period of transition.

The business elements that have supplied their quotas of this investigation corps in the past have already determined to continue their support in order to assist in the problems of the immediate future, whether these be the same as those of the past or new transition-stage problems of a change in the executive branch.

Our successor committee to function in the Institute's new fiscal—and administrative—year will have the problem of such continuance of service before it. In reaching its decision, however, it will have the benefit of actual knowledge, instead of present speculation, which the November elections will give it.

We have spoken of the services rendered as being of an "emergency" nature, occasioned by the fact of dissimilar political control of the legislative and executive branches of our government. Normally this condition does not exist and thus, normally, there would be no occasion for this kind of supplementation of government service. But times of huge multi-billion government expenditures cannot in any way be regarded as normal times; our national economy cannot possibly continue under its century-and-a-half old philosophy without relief from so oppressive a burden. The long-range remedy—one that would dispense with any sort of "emergency" measures—can only be administered through such a governmental reconstitution as is provisioned as the result of the presently active "Commission on Organization of the Executive Branch of the Government," commonly known as the "Hoover Commission." The recommendations of this commission will be submitted to the new Congress this coming year. It is devoutly to be hoped that as a result of such recommendations, past budgetary difficulties will be ended.

Respectfully submitted,

September 17, 1948. E. A. KRACKE, *Chairman*

Committee on Coordination of Activities of State and National Organizations

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: In our report to council last April, your committee recommended that the program of the state society service department should be

"streamlined to more effectively serve the specific needs and meet the organization problems of the individual societies; in other words, regulate output to suit demand and capacity for consumption."

This recommendation was approved unanimously at the council meeting. Steps have already been taken to put it into effect.

The first step, following the resignation of the director of the state society service department, was to place the department under the supervision of the director of public information. We believe that this was a natural and desirable step in carrying out our recommendation, since a substantial portion of the material which had been sent out by the state society service department was concerned with problems in the field of public relations, including legislation.

For example, the public information department last winter prepared a basic statement on CPA standards and the background of the CPA certificate, which was adapted and used successfully by the Virginia Society in combating undesirable legislation. Since that time, the public relations counsel and the department have developed additional material comprising a legislative kit, which is now being sent to all state societies. This kit contains an outline of the various steps which may be taken to promote a good bill or kill a bad one, together with pattern material which may be adapted for use in connection with legislative problems in any state.

The assistant director of the public information department has for several years participated in the planning and

publicity for regional conferences, and this activity will be expanded if additional regional conferences are set up by state societies along the lines suggested by the committee on regional conferences.

A number of state societies are making specific plans to expand their public relations activities during the coming year. The Institute has assisted several of them in preparing outlines for these activities, and there have been a number of special conferences on this subject.

While your committee believes that the streamlining suggested in our last report to council is being effectively carried out by the coordination of the two departments, the identity of the state society service department is being preserved, and a new staff assistant has been engaged to carry on the work of this department.

The speakers bureau which has been maintained for some time by the Institute is being continued, and a new plan has been developed to coordinate the speaking engagements of Institute officers and staff, so they can make a maximum number of appearances before the various state societies and chapters with a minimum number of trips.

During the summer months when most of the state societies were comparatively inactive, the department has been engaged in the not inconsiderable task of assembling lists of new state society and chapter officers and committees, and has sent them a variety of material containing suggestions to facilitate their work. This material includes a new public relations handbook; suggested activities for twelve committees; a new compilation of the dues and assessments of the various state societies; material received from Commerce Clearing House on bills introduced and acted upon in state legislatures; bulletins and other publications of the various state societies; and a news letter outlining recent developments in

federal legislation and in court cases affecting certified public accountants.

During the coming year, it is planned to issue a number of news letters of this type reporting on developments and activities of special interest to the state societies and their committees. Your committee believes that these news letters can provide in condensed and more readily usable form the type of material formerly contained in state society service department releases.

The monthly column on state society activities in *The Certified Public Accountant* has been continued during the summer and will be expanded as the state societies become more active in the fall and winter.

The objective of the revised program of the state society service department, which is being carried out in accordance with the recommendations of your committee, is to supply as much material as can be used advantageously, without burdening state society officers and committees with material which has no practical application.

Your committee reaffirms its belief that the work of the state society service department should be continued, and tailored to meet the expressed needs of the state societies and chapters. The effectiveness of the department therefore depends to a not inconsiderable extent on the cooperation of state society officials and committees in reporting what material they find most useful.

The program will be further modified from time to time in accordance with suggestions received.

Respectfully submitted,

CLINTON W. BENNETT, *Chairman*
C. WELDON BARSTOW
WALTER G. DRAEWELL
SIMON LOEB
RUSSEL A. PEARSON
ROY L. POPE
W. B. ROBERTS
CYRIL TALBOT
WALLACE W. WILLARD

August 17, 1948.

Committee on Cooperation with Stock Exchanges

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since the mid-year report to the council no formal meetings of the committee have been held but members of the committee have met with the New York Stock Exchange and have exchanged views on various problems by correspondence. At these meetings the following questions were discussed:

Depreciation on Replacement Cost

Following up their views expressed at the meeting held on March 31, 1948, representatives of the Exchange stated that they hoped the committee would give serious consideration to the problem of how to reflect in current earnings the

effect of current construction costs. Some representatives of the Exchange expressed the opinion that many managements were deeply concerned over the problem and felt that current earnings were being overstated by the understatement of depreciation charges based on current costs. It was agreed to convey the viewpoint of the representatives of the Exchange to the committee on accounting procedure so that they could take them into consideration in their study of the problem.

Form of Income and Earned Surplus

Representatives of the Exchange indicated that they were deeply concerned

over the manner in which net income had been reported by many companies in their published statements for the year 1947. Quite a number of companies reported their earnings and the amounts per share as being the amounts arrived at after deducting appropriations for depreciation on replacement cost. They stated that there appeared to be confusion as to whether the independent accountant, in reporting that in his opinion the income statement presented "fairly the results of operations for the year" referred to the statement as a whole, including appropriations of income shown thereon as deductions from net income, or whether he merely approved the net income as stated and expressed no opinion as to the fairness of the appropriations. Officials of the Exchange indicated that they were anxious to take some action to correct these situations in annual reports to stockholders. The question was referred to the committee on accounting procedure and it is understood that this committee is now considering a bulletin entitled "Form of Presentation of Income and

Earned Surplus" which should have the effect of changing the practices to which the Exchange objects. The contents of this bulletin have been discussed with representatives of the Exchange.

Stock Dividends

As mentioned in the mid-year report this question was referred to the committee on accounting procedure. The majority of this committee came to the conclusion that stock dividends (common-on-common) should not be regarded as income by corporate recipients. This decision has been communicated to representatives of the Exchange and there have been further discussions with them on the subject.

Respectfully submitted,

JOHN B. INGLIS, *Chairman*
WILLIAM EYRE
RALPH JOHNS
GEORGE W. ROSSETTER
JAMES B. WILLING

September 2, 1948.

VI.

ADMINISTRATIVE REPORTS

American Institute Benevolent Fund, Inc.

Report of Board of Trustees

TO THE AMERICAN INSTITUTE
BENEVOLENT FUND, INC.

GENTLEMEN: During the fiscal year ended August 31, 1948, the American Institute Benevolent Fund, Inc., received in the form of contributions, income from investments, and interest on savings bank deposits, \$13,339. During the year the Fund extended assistance to members of the Institute in the amount of \$3,500, and expended \$156 for stationery, printing, postage, and general expenses.

Contributions to the Fund this year were \$11,452, compared with \$16,893 the previous year, \$5,000 of which was in the form of a bequest left to the Fund

by a member. The principal fund as of August 31, 1948, was \$65,235.

A statement of assets of the Fund as of August 31, 1948, and August 31, 1947, and an analysis of the increases and decreases of the principal Fund during the two fiscal years are submitted as a supplement to this report.

We are glad to note that our funds continue to grow and, while this indicates that annual contributions so far have been consistently in excess of the expenditures, we regard this as satisfactory, as expenditures in future will, in all probability, be much greater than they have been in the past. Having in view the increase in membership of the Institute, and the advancing in age of

American Institute of Accountants Benevolent Fund

COMPARATIVE BALANCE SHEET

| | ASSETS | Year ended August 31 | |
|--|------------------------|----------------------|-----------------|
| | | 1948 | 1947 |
| Cash | | \$ 9,131 | \$ 4,573 |
| Securities, at cost (quoted market value | | | |
| August 31, 1948 — \$54,412 | 1947 — \$49,991) | 56,104 | 50,979 |
| Total | | <u>\$65,235</u> | <u>\$55,552</u> |
| LIABILITIES | | | |
| Principal | | <u>\$65,235</u> | <u>\$55,552</u> |

STATEMENT OF PRINCIPAL TRANSACTIONS

| | | |
|---|-----------------|-----------------|
| Principal at beginning of fiscal year | \$55,552 | \$39,082 |
| Add: Excess of income over expenditures | | |
| Principal August 31 | 9,683 | 16,470 |
| | <u>\$65,235</u> | <u>\$55,552</u> |

COMPARATIVE STATEMENT OF OPERATIONS

| | | | |
|---|-----------------|-----------------|--|
| <i>Income</i> | | | |
| Contributions | \$11,452 | \$16,893 | |
| Income from securities | 1,858 | 1,332 | |
| Interest on savings accounts | 29 | 28 | |
| Total income | <u>\$13,339</u> | <u>\$18,253</u> | |
| <i>Expenditures</i> | | | |
| Stationery, printing and postage | \$ 156 | \$ 183 | |
| Assistance to members | 3,500 | 1,600 | |
| Total expenditures | <u>\$ 3,656</u> | <u>\$ 1,783</u> | |
| Excess of income over expenditures transferred to | | | |
| principal account | <u>\$ 9,683</u> | <u>\$16,470</u> | |

many of its members, we believe a substantial fund should be gradually accumulated, and that we have not yet reached this point.

Respectfully submitted,

FREDERICK H. HURDMAN, *President*
CHARLES H. TOWNS, *Treasurer*

SAMUEL J. BROAD
N. LOYALL McLAREN
ROBERT H. MONTGOMERY
GEORGE S. OLIVE
C. OLIVER WELLINGTON
JOHN L. CAREY, *Secretary*

September 13, 1948.

American Institute of Accountants Foundation

Report of Board of Trustees

TO THE AMERICAN INSTITUTE OF
ACCOUNTANTS FOUNDATION:

GENTLEMEN: Your board of trustees has held two meetings since the annual meeting in November, 1947.

Income from the Foundation, amounting to \$3,623, derived from interest on the capital fund, has been contributed toward the support of the Institute's library as in the past, with the exception of \$206, which has been paid in fees to the securities custodian, and other expenses.

During the year \$10,000 was appro-

priated from the general fund of the Institute to the special research fund. Income from sales of the pamphlet *Public Accounting as a Career*, amounted to \$89, and \$3,528 was received in fees from the testing program. Expenses of the special research project for the fiscal year amounted to \$26,807, leaving an unexpended balance of \$15,110, in the special research fund.

Respectfully submitted for the board
of trustees,

GEORGE D. BAILEY, *President*

September 13, 1948.

Report of the Auditors

TO THE MEMBERS OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: We have examined the consolidated balance sheet of American Institute of Accountants and its wholly owned subsidiary, American Institute Publishing Co., Inc., and the balance sheets of its affiliates, American Institute of Accountants Foundation and American Institute Benevolent Fund, Inc., as of August 31, 1948 and 1947, and the related statements of income and principal for the fiscal years then ended, have reviewed the system of internal control and accounting procedures of the Institute, its subsidiary and affiliates and, without making a detailed audit of the transactions, have examined or tested their accounting records and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

Following the practice of prior years, income accrued on investments but not received, and ordinary operating expenses for which invoices were received subsequent to the balance sheet dates, have not been reflected in the statements; the costs of bulletins and pamphlets on hand for sale have been charged to expense at the time of acquisition.

In our opinion the accompanying consolidated balance sheet of American Institute of Accountants, and its wholly owned subsidiary, American Institute Publishing Co., Inc., and the balance sheets of its affiliates, American Institute of Accountants Foundation, and American Institute Benevolent Fund, Inc., and the related statements of income and principal, present fairly their position at August 31, 1948 and 1947, and the results of their operations for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

September 14, 1948

ALEXANDER GRANT & COMPANY.

AMERICAN INSTITUTE OF ACCOUNTANTS AND AMERICAN INSTITUTE PUBLISHING CO., INC.

(Not inclusive of American Institute of Accountants Foundation or American Institute Benevolent Fund, Inc., for which separate statements are included herein)

COMPARATIVE CONSOLIDATED BALANCE SHEET

August 31, 1948 and 1947

| | August 31, | |
|--|---------------------|---------------------|
| | 1948 | 1947 |
| ASSETS | | |
| Cash | \$ 51,642.95 | \$ 34,504.66 |
| Marketable securities, at cost (value based on market quotations 1948—\$377,488.50; 1947—\$381,959.69) | 365,476.16 | 360,673.00 |
| Accounts receivable (including advances for employees' portion of pension plan costs, 1948—\$1,369.69 and 1947—\$1,191.84) | 47,190.73 | 19,638.32 |
| Federal income tax refund receivable... | — | 1,200.00 |
| Inventories (books and unbound sheets, at cost or nominal value; paper stock, supplies, et cetera, at cost)..... | 25,616.80 | 11,324.25 |
| Prepaid expenses | 5,878.85 | 10,855.76 |
| Library books, furniture and equipment (nominal value) | 3.00 | 3.00 |
| Goodwill of American Institute Publishing Co., Inc. | 14,699.08 | 14,699.08 |
| | <u>\$510,507.57</u> | <u>\$452,898.07</u> |

| | August 31, | |
|---|---------------------|---------------------|
| | 1948 | 1947 |
| LIABILITIES AND PRINCIPAL | | |
| Liabilities | | |
| Note payable to bank..... | \$ 40,000.00 | \$ — |
| Accounts payable | 7,141.44 | 6,000.00 |
| Taxes withheld from salaries..... | 306.05 | 236.31 |
| Accrued expenses | 1,761.96 | 1,489.55 |
| Payroll deductions for United States Savings Bonds | 111.50 | 154.75 |
| Provision for Federal and state taxes on income | 1,120.00 | — |
| Total liabilities | 50,440.95 | 7,880.61 |
| Deferred income, subscriptions and advertising unearned, dues paid in advance, prospective members application fees, and unfilled orders..... | 81,783.96 | 65,069.12 |
| Principal | | |
| American Institute of Accountants | | |
| Endowment fund | 226,634.86 | 226,412.17 |
| Appropriated for contingency fund. | 117,591.06 | 120,352.23 |
| Business income research fund..... | 10,582.41 | 9,716.54 |
| Elijah Watt Sells scholarship fund.. | 1,740.51 | 1,733.58 |
| Unappropriated | 17,524.98 | 17,189.11 |
| | <u>374,073.82</u> | <u>375,403.63</u> |
| American Institute Publishing Co., Inc. | 4,208.84 | 4,544.71 |
| Total principal | <u>378,282.66</u> | <u>379,948.34</u> |
| | <u>\$510,507.57</u> | <u>\$452,898.07</u> |

AMERICAN INSTITUTE OF ACCOUNTANTS AND
AMERICAN INSTITUTE PUBLISHING CO., INC.

(Not inclusive of American Institute of Accountants Foundation or American Institute Benevolent Fund, Inc., for which separate statements are included herein, nor other transactions charged or credited direct to principal of funds)

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

Years ended August 31, 1948 and 1947

| | Year ended August 31, | |
|--|-----------------------|--------------|
| | 1948 | 1947 |
| Income | | |
| Dues and reinstatement fees..... | \$291,663.87 | \$253,613.49 |
| Earned subscriptions to monthly publications—non-members only | 136,823.34 | 95,403.43 |
| Sales of books..... | 24,507.70 | 13,940.33 |
| Advertising | 78,391.86 | 57,133.74 |
| Fees from state boards..... | 69,340.30 | 42,531.39 |
| Income from securities and interest on bank balances.... | 13,395.06 | 12,824.38 |
| Application fees | 1,780.00 | 1,390.00 |
| Contributions to library from American Institute of Accountants Foundation | 3,417.35 | 2,969.35 |
| Profit on other publications, services rendered and other items | 84,712.27 | 28,704.06 |
| Profit on sale of securities | 12.52 | — |
| Total income..... | 704,044.27 | 508,510.17 |
| Expenses | | |
| Salaries and technical service fees..... | 277,163.83 | 210,392.00 |
| Prime cost of monthly publications (paper, printing, et cetera) | 109,754.39 | 90,492.17 |
| Rent, electricity and building maintenance..... | 21,637.39 | 22,584.79 |
| Board of examiners expenses..... | 97,314.04 | 46,170.39 |
| Prime cost of books (paper, printing, purchases, royalties, et cetera) | 9,574.75 | 5,854.88 |
| Postage and expressage..... | 23,278.49 | 18,943.28 |
| Honorarium | 5,000.00 ¹ | 5,000.00 |
| Stationery, printing and supplies..... | 16,481.80 | 12,881.19 |
| Yearbook and directory | 19,252.53 | 17,220.28 |
| Traveling | 12,829.77 | 16,028.04 |
| Legal and auditing fees..... | 8,218.73 | 7,387.00 |
| Special reports to members..... | 19,746.58 | 13,823.04 |
| Telephone and telegraph | 5,615.46 | 6,224.79 |
| Employer's contributions to cost of employees' pension plan | 11,210.89 | 3,515.23 |
| Social security taxes..... | 5,397.32 | 4,994.99 |
| Advertising and promotion of publications..... | 5,919.88 | 4,965.50 |
| Annual, council, and executive committee meeting expenses | 12,860.39 | 5,220.68 |
| Technical and other committee expenses..... | 5,627.35 | 4,777.00 |
| Books and magazines purchased | 3,959.33 | 3,655.55 |
| Equipment purchased | 10,518.42 | 3,611.39 |
| Contribution to Foundation (Committee on Selection of Personnel) | 10,000.00 | 10,000.00 |
| Subscription and mailing service..... | 1,869.58 | — |
| Other items | 9,016.83 | 7,647.09 |
| Total expenses | 702,247.75 | 521,389.28 |

(Continued on following page)

AMERICAN INSTITUTE OF ACCOUNTANTS AND
AMERICAN INSTITUTE PUBLISHING CO., INC.

(Not inclusive of American Institute of Accountants Foundation or American Institute Benevolent Fund, Inc., for which separate statements are included herein, nor other transactions charged or credited direct to principal of funds)

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

Years ended August 31, 1948 and 1947

(Continued)

| | Year ended August 31, | |
|---|-----------------------|-----------|
| | 1948 | 1947 |
| Excess of expenses over income except for contributions as below..... | 1,796.52 | 12,879.11 |
| Other Contributions | | |
| Net receipts relating to publications sold; publishing rights having been donated by authors..... | 9,846.35 | 28,254.81 |
| Excess of income over expenses (before provision for taxes on income of American Institute Publishing Co., Inc.)..... | 11,642.87 | 15,375.70 |
| Less provision for (or <i>refund</i>) of taxes on income American Institute Publishing Co., Inc..... | 1,120.00 | 1,200.00 |
| Excess of Income over expenses..... | 10,522.87 | 16,575.70 |

¹ The honorarium of \$5,000.00 represents annual payments to A. P. Richardson, former secretary, and as such was approved by the council at its annual meeting held October 20, 1936. Such payment is to continue to Mr. Richardson during the remainder of his life.

AMERICAN INSTITUTE OF ACCOUNTANTS

COMPARATIVE BALANCE SHEETS

August 31, 1948 and 1947

| | August 31, | | August 31, | |
|---|---------------------|---------------------|---|---|
| | 1948 | 1947 | 1948 | 1947 |
| ASSETS | | | LIABILITIES AND PRINCIPAL | |
| | | | Endowment Fund | |
| Cash | \$ 961.35 | \$ 390.05 | Liabilities | |
| Marketable securities, at cost, (value based on market quotations 1948—\$238,515.75; 1947—\$246,269.50)... | 225,785.46 | 226,107.30 | Accrued taxes | \$ 112.95 \$ 86.18 |
| Library books, furniture and equipment (nominal value) | 1.00 | 1.00 | Principal | 226,634.86 226,412.17 |
| | <u>\$226,747.81</u> | <u>\$226,498.35</u> | | <u>\$226,747.81</u> <u>\$226,498.35</u> |
| | | | Contingency Fund | |
| Cash | \$ 4,190.89 | \$ 2,587.58 | Due to business income research fund.... | \$ — \$ 5,000.00 |
| Marketable securities, at cost, (valued based on market quotations 1948—\$102,510.25; 1947—\$106,297.69)..... | 102,884.23 | 106,167.23 | | |
| Due from general fund..... | 10,515.94 | 16,597.42 | Principal | 117,591.06 120,352.23 |
| | <u>\$117,591.06</u> | <u>\$125,352.23</u> | | <u>\$117,591.06</u> <u>\$125,352.23</u> |
| | | | Business Income Research Fund (Note) | |
| Cash | \$ 10,582.41 | \$ — | Principal | \$ 10,582.41 \$ 9,716.54 |
| Due from contingency fund | — | 5,000.00 | | |
| Due from general fund..... | — | 4,716.54 | | |
| | <u>\$ 10,582.41</u> | <u>\$ 9,716.54</u> | | <u>\$ 10,582.41</u> <u>\$ 9,716.54</u> |

AMERICAN INSTITUTE OF ACCOUNTANTS

Elijah Watt Sells Scholarship Fund

| | | | | | |
|---|--------------------|--------------------|--|---------------------|---------------------|
| Marketable securities, at cost, (value based on market quotations 1948—\$1,530.00; 1947—\$1,822.50)..... | \$ 1,531.57 | \$ 1,531.57 | Principal, restricted | \$ 1,112.50 | \$ 1,112.50 |
| Due from general fund..... | 208.94 | 202.01 | Unexpended income | 628.01 | 621.08 |
| | <u>\$ 1,740.51</u> | <u>\$ 1,733.58</u> | | <u>\$ 1,740.51</u> | <u>\$ 1,733.58</u> |
| General Fund | | | | | |
| Cash | \$ 21,465.60 | \$ 16,130.44 | Liabilities | | |
| Marketable securities, at cost, (value based on market quotations 1948—\$15,372.50; 1947—\$7,810.00)..... | 15,274.90 | 6,866.90 | Note payable to bank..... | \$ 40,000.00 | \$ — |
| Accounts receivable, for examination services and other items..... | 39,397.29 | 15,848.39 | Accounts payable | 5,104.76 | 4,000.00 |
| Prepaid expenses | 5,329.47 | 10,855.76 | Taxes withheld from salaries..... | 201.64 | 142.53 |
| Investment in capital stock (100%) of American Institute Publishing Co., Inc., at cost | 5,000.00 | 5,000.00 | Accrued taxes | 958.83 | 706.53 |
| Furniture and equipment (nominal value) | 1.00 | 1.00 | Payroll deductions, United States Savings Bonds | 111.50 | 154.75 |
| | | | Due to Elijah Watt Sells scholarship fund | 208.94 | 202.01 |
| | | | Due to business income research fund | — | 4,716.54 |
| | | | Due to contingency fund..... | 10,515.94 | 16,597.42 |
| | | | | <u>57,101.61</u> | <u>26,519.78</u> |
| | | | Deferred income, dues paid in advance, prospective members application fees, and unfilled orders | 6,841.67 | 5,993.60 |
| | | | Principal | <u>22,524.98</u> | <u>22,189.11</u> |
| | | | | <u>\$ 86,468.26</u> | <u>\$ 54,702.49</u> |

NOTE:—A grant of \$30,000 has been made by the Rockefeller Foundation for a three-year study of business income. The American Institute of Accountants has agreed to contribute a like amount. As of August 31, 1948 a total of \$10,000 has been received from the Rockefeller Foundation and a similar amount has been appropriated from the contingency fund

AMERICAN INSTITUTE OF ACCOUNTANTS

SCHEDULE OF MARKETABLE SECURITIES

August 31, 1948

| Par Value or number of shares | Description | Rate | Year of maturity | Cost | Value based on market quotations |
|-------------------------------------|---|------|---------------------|----------------------------|--|
| Endowment Fund | | | | | |
| Bonds | | | | | |
| \$17,000.00 | United States Savings Bonds, Series G... | 2½% | 1953 | \$ 17,000.00 | \$ 16,388.00 ¹ |
| 9,000.00 | United States Savings Bonds, Series G... | 2½ | 1955 | 9,000.00 | 8,595.00 ¹ |
| 3,500.00 | United States Savings Bonds, Series G... | 2½ | 1958 | 3,500.00 | 3,391.50 ¹ |
| 5,000.00 | Atlantic Coast Line Railroad Co., Series A | 4½ | 1964 | 3,912.50 | 5,050.00 |
| 5,000.00 | Canadian Pacific Railway Co..... | 4 | Perpetual | 4,862.50 | 4,743.75 |
| 10,000.00 | Chicago, Milwaukee, St. Paul and Pacific Railroad Co., general mortgage income bonds, Series A..... | 4½ | 2019 | 9,975.00 | 7,450.00 |
| 5,000.00 | Macon Terminal Co., guaranteed first mortgage, gold bonds..... | 5 | 1965 | 5,400.00 | 5,125.00 |
| 5,000.00 | New York Central Railroad Co., refund- ing and improvement mortgage A..... | 4½ | 2013 | 2,912.50 | 3,468.75 |
| 5,000.00 | New York Central and Hudson River Railroad Co., Lake Shore collateral.... | 3½ | 1998 | 4,257.50 | 3,125.00 |
| 10,000.00 | Southern Pacific Co., gold bonds..... | 4½ | 1981 | 9,083.75 | 9,450.00 |
| 7,500.00 | Shawinigan Water and Power Co., first mortgage and collateral trust..... | 3½ | 1970 | 7,122.50 | 6,525.00 |
| 1,000.00 | St. Louis-San Francisco Railway Co., first mortgage, A..... | 4 | 1997 | 1,499.95 | 842.50 |
| 1,000.00 | St. Louis-San Francisco Railway Co., second mortgage, income A, registered | 4½ | 2020 | 978.33 | 671.00 |
| | | | | <u>\$79,504.53</u> | <u>\$74,825.00</u> |
| Preferred stocks | | | | | |
| 100 shares | Bethlehem Steel Corporation, 7% cumula- tive preferred | | | 12,325.00 | 13,200.00 |
| 200 shares | Commonwealth and Southern Corporation, \$6 preferred | | | 11,036.00 | 19,200.00 |
| 100 shares | Consumer's Power Company, \$4.50 preferred..... | | | 10,383.18 | 10,025.00 |
| 100 shares | P. Lorillard Co., 7% preferred..... | | | 16,907.05 | 15,000.00 |
| 15 shares | Pacific Gas and Electric Co., 6% first preferred..... | | | 510.53 | 510.00 |
| 100 shares | United States Steel Corporation, 7% cumu- lative preferred | | | 13,413.01 | 13,387.50 |
| 17 shares | St. Louis-San Francisco Railway Co., (par 100) 5% preferred | | | 891.68 | 724.62 |
| | | | | <u>\$65,466.45</u> | <u>\$72,047.12</u> |
| Common stocks | | | | | |
| 100 shares | Allied Chemical and Dye Corporation..... | | | 15,364.00 | 18,687.50 |
| 100 shares | American Telephone and Telegraph Co..... | | | 16,147.26 | 15,375.00 |
| 200 shares | General Electric Company..... | | | 7,155.29 | 7,900.00 |
| 100 shares | General Motors Corporation..... | | | 4,912.22 | 6,237.50 |
| 108 shares | Gulf Oil Corporation..... | | | 5,970.01 | 7,411.50 |
| 18 shares | Guaranty Trust Co. of New York..... | | | 5,918.00 | 4,896.00 |
| 100 shares | International Harvester Company | | | 8,821.97 | 8,662.50 |
| 100 shares | National City Bank of New York | | | 4,537.50 | 3,937.50 |
| 200 shares | Standard Oil Company of New Jersey..... | | | 11,302.53 | 18,041.25 |
| 35 shares | St. Louis-San Francisco Railway Co. | | | 685.70 | 494.38 |
| | | | | <u>80,814.48</u> | <u>91,643.13</u> |
| | Total endowment fund..... | | | <u><u>\$225,785.46</u></u> | <u><u>\$238,515.75</u></u> |

¹ Current redemption value.

AMERICAN INSTITUTE OF ACCOUNTANTS

SCHEDULE OF MARKETABLE SECURITIES

(Continued)

August 31, 1948

| <u>Par Value or number of shares</u> | <u>Description</u> | <u>Rate</u> | <u>Year of maturity</u> | <u>Cost</u> | <u>Value based on market quotations</u> |
|--|---|-------------|-----------------------------|----------------------|---|
| Contingency Fund | | | | | |
| Bonds | | | | | |
| \$68,500.00 | United States Savings Bonds, Series G.. | 2½% | 1958 | \$ 68,500.00 | \$ 66,376.50 ¹ |
| 9,000.00 | United States Treasury Bonds..... | 2½ | 1969-64 | 9,000.00 | 9,067.50 |
| 5,500.00 | Shawinigan Water and Power Co., first mortgage and collateral trust..... | 3½ | 1970 | 5,183.75 | 4,785.00 |
| 5,000.00 | Chicago, Rock Island and Pacific Rail- road Co. first mortgage A..... | 4 | 1994 | 5,125.00 | 5,256.25 |
| | | | | <u>87,808.75</u> | <u>85,485.25</u> |
| Stocks | | | | | |
| 100 shares | Gulf Oil Corporation, capital stock (par \$25) | | | 5,564.34 | 6,862.50 |
| 300 shares | Otis Elevator Company, common stock..... | | | 9,511.14 | 10,162.50 |
| | | | | <u>15,075.48</u> | <u>17,025.00</u> |
| | Total contingency fund..... | | | <u>\$ 102,884.23</u> | <u>\$ 102,510.25</u> |
| Elijah Watt Sells Scholarship Fund | | | | | |
| 45 shares | Pacific Gas and Electric Co., 6% first preferred | | | <u>\$ 1,531.57</u> | <u>\$ 1,530.00</u> |
| General Fund | | | | | |
| 100 shares | Consolidated Edison Co. of New York, \$5 preferred | | | <u>\$ 10,510.00</u> | <u>\$ 10,612.50</u> |
| 140 shares | Pacific Gas and Electric Company, 6% first preferred. | | | <u>4,764.90</u> | <u>4,760.00</u> |
| | Total general fund..... | | | <u>\$ 15,274.90</u> | <u>\$ 15,372.50</u> |
| Summary of Total Endowment, Contingency, General, and Elijah Watt Sells Scholarship Funds | | | | | |
| | Bonds | | | \$ 167,313.28 | \$ 160,310.75 |
| | Preferred stocks..... | | | 82,272.92 | 88,949.62 |
| | Common stocks | | | <u>95,889.96</u> | <u>108,668.13</u> |
| | Total investments..... | | | <u>\$ 345,476.16</u> | <u>\$ 357,928.50</u> |

¹ Current redemption value.

AMERICAN INSTITUTE OF ACCOUNTANTS

STATEMENT OF PRINCIPAL TRANSACTIONS FOR THE FISCAL YEAR ENDED AUGUST 31, 1948

| | Total | Unappro- priated | Endowment Fund | Appropriated for Contingency Fund | Elijah Watt Sells Scholarship Fund | | Business Income Research Fund |
|---|---------------------|---------------------|---------------------|--|---------------------------------------|----------------------|--|
| | | | | | Restricted | Unexpended income | |
| Balance, September 1, 1947..... | \$375,403.63 | \$17,189.11 | \$226,412.17 | \$120,352.23 | \$1,112.50 | \$621.08 | \$9,716.54 |
| Add | | | | | | | |
| Excess of income over expenses for fiscal year..... | 10,858.74 | 19,719.86 | 8,868.05 | — | — | 6.93 | — |
| Income from securities and savings bank deposits..... | 3,494.37 | — | — | 3,494.37 | — | — | — |
| Profit on sales of securities..... | 453.63 | — | 222.69 | 230.94 | — | — | — |
| Sales (net) of "The Conference on Federal Government Accounting"..... | 48.00 | — | — | 48.00 | — | — | — |
| Contribution to Business Income Research Fund by Rockefeller Foundation..... | 5,000.00 | — | — | — | — | — | 5,000.00 |
| Appropriations to Business Income Research Fund..... | — | — | — | 5,000.00 | — | — | 5,000.00 |
| Other funds..... | — | 19,383.99 | 8,868.05 | 10,515.94 | — | — | — |
| Total | <u>395,258.37</u> | <u>17,524.98</u> | <u>226,634.86</u> | <u>129,641.48</u> | <u>1,112.50</u> | <u>628.01</u> | <u>19,716.54</u> |
| Deduct | | | | | | | |
| Special legal fees in connection with Judicial Codifica- tion Bill (HR 3214) and the Administrative Practitioners Bill (HR 2657)..... | 12,050.42 | — | — | 12,050.42 | — | — | — |
| Expenditures from Business Income Research Fund..... | 9,134.13 | — | — | — | — | — | 9,134.13 |
| Total | <u>21,184.55</u> | <u>—</u> | <u>—</u> | <u>12,050.42</u> | <u>—</u> | <u>—</u> | <u>9,134.13</u> |
| Balance, August 31, 1948..... | <u>\$374,073.82</u> | <u>\$17,524.98</u> | <u>\$226,634.86</u> | <u>\$117,591.06</u> | <u>\$1,112.50</u> | <u>\$628.01</u> | <u>\$10,582.41</u> |

Italics indicates red.

American Institute of Accountants Annual Reports
AMERICAN INSTITUTE OF ACCOUNTANTS
COMPARATIVE STATEMENT OF INCOME AND EXPENSES
Years ended August 31, 1948 and 1947

| | Year ended August 31, | |
|--|-----------------------|--------------------|
| | 1948 | 1947 |
| Endowment Fund Operations—(Library) | | |
| Income | | |
| Income from securities | \$ 12,254.01 | \$ 11,927.49 |
| Contributions from American Institute of Accountants | | |
| Foundation | 3,417.35 | 2,969.35 |
| Sales of <i>Accountants' Index</i> Supplements | 121.67 | 40.76 |
| Total income | <u>15,793.03</u> | <u>14,937.60</u> |
| Expenses | | |
| Salaries | 14,030.81 | 11,640.00 |
| Rent | 4,532.71 | 4,466.67 |
| Books and magazines purchased | 3,959.33 | 3,655.55 |
| Furniture and fixtures purchased | 707.45 | 635.46 |
| Social security taxes | 288.52 | 327.52 |
| Custodian fees | 507.46 | 477.11 |
| Telephone, stationery, postage, insurance and other items | 634.80 | 716.85 |
| Total expenses | <u>24,661.08</u> | <u>21,919.16</u> |
| Excess of expenses over income (met by transfer from general fund) | <u>\$ 8,868.05</u> | <u>\$ 6,981.56</u> |

**Elijah Watt Sells Scholarship Fund—
Unexpended Income**

| | | |
|---|----------------|-----------------|
| Income from securities | \$ 64.80 | \$ 64.80 |
| Less cost of medals for awards | <u>57.87</u> | <u>86.53</u> |
| Excess of income or <i>expenses</i> | <u>\$ 6.93</u> | <u>\$ 21.73</u> |

General Fund

| | | |
|--|-------------------|-------------------|
| Income | | |
| Dues and reinstatement fees | \$291,663.87 | \$253,613.49 |
| Fees from state boards | 69,340.30 | 42,531.39 |
| Profit on publications sold | 70,118.92 | 21,533.39 |
| Application fees | 1,780.00 | 1,390.00 |
| Income from securities and interest on bank balances | 576.25 | 582.09 |
| Gain on sale of securities | 12.52 | — |
| Charges to the American Institute Publishing Co., Inc., for editorial service, material, and use of library | 8,500.00 | 8,500.00 |
| Sundry income | 5,349.99 | 1,365.18 |
| Total income (carried forward) | <u>447,341.85</u> | <u>329,515.54</u> |

(*Italics indicates red*)

AMERICAN INSTITUTE OF ACCOUNTANTS

COMPARATIVE STATEMENT OF INCOME AND EXPENSES (Continued)

Years ended August 31, 1948 and 1947

| | Year ended August 31, | |
|--|-----------------------|--------------|
| | 1948 | 1947 |
| General Fund (Continued) | | |
| Total income (brought forward)..... | \$447,341.85 | \$329,515.54 |
| Expenses | | |
| Salaries and technical service fees | 153,079.85 | 129,552.63 |
| Portion of dues covering subscriptions of members to <i>The Journal of Accountancy</i> | 28,883.54 | 21,073.30 |
| Cost of publishing <i>The Certified Public Accountant</i> mag- azine | 11,178.41 | 8,778.63 |
| Board of examiners expenses..... | 97,314.04 | 46,170.39 |
| Rent, electricity, and building maintenance..... | 9,615.41 | 10,918.33 |
| Yearbook and directory | 19,252.53 | 17,220.28 |
| Traveling | 12,829.77 | 16,028.04 |
| Honorarium | 2,500.00 ¹ | 2,500.00 |
| Stationery, printing, and supplies..... | 11,713.42 | 9,350.86 |
| Postage and expressage | 10,449.72 | 8,421.08 |
| Special reports to members | 19,746.58 | 13,823.04 |
| Annual, council and executive committee meeting expense | 12,860.39 | 5,220.68 |
| Technical and other committee expenses..... | 5,627.35 | 4,777.00 |
| Legal and auditing fees..... | 5,338.73 | 4,862.00 |
| Telephone and telegraph..... | 3,763.85 | 4,484.01 |
| Equipment purchased | 4,948.27 | 1,989.72 |
| Employer's contribution to cost of employee's pension plan | 6,882.40 | 1,973.24 |
| Social security taxes..... | 2,882.54 | 2,887.95 |
| Advertising and announcements..... | 2,716.83 | 1,309.50 |
| Contribution to Foundation—(Committee on Selection of Personnel) | 10,000.00 | 10,000.00 |
| Other items | 5,884.71 | 5,150.50 |
| Total expenses | 437,468.34 | 326,491.18 |
| Excess of income over expenses except for contribu- tions as below | 9,873.51 | 3,024.36 |
| Other Contributions | | |
| Net receipts relating to publications sold; publishing rights having been donated by authors..... | 9,846.35 | 25,182.81 |
| Excess of income over expenses..... | \$ 19,719.86 | \$ 28,207.17 |

¹ See note to comparative consolidated statement of income and expenses.

American Institute of Accountants Annual Reports
AMERICAN INSTITUTE PUBLISHING CO., INC.

COMPARATIVE BALANCE SHEET

August 31, 1948 and 1947

| | August 31, | |
|--|---------------------|---------------------|
| ASSETS | 1948 | 1947 |
| Cash | \$ 14,442.70 | \$ 15,396.59 |
| Marketable securities, at cost, (United States Savings Bonds, Series G, due 1958, redemption value 1948—\$19,560.00; 1947—\$19,760.00) | 20,000.00 | 20,000.00 |
| Accounts receivable | 7,793.44 | 3,789.93 |
| Federal income tax refund receivable | — | 1,200.00 |
| Inventories | | |
| Books, unbound sheets, paper stock and wrappers, at cost or nominal value (Note) | 25,616.80 | 11,324.25 |
| Prepaid expenses | 549.38 | — |
| Furniture and equipment (nominal value) | 1.00 | 1.00 |
| Goodwill | 14,699.08 | 14,699.08 |
| | <u>\$83,102.40</u> | <u>\$ 66,410.85</u> |
| LIABILITIES | | |
| Liabilities | | |
| Accounts payable | \$ 2,036.68 | \$ 2,000.00 |
| Taxes withheld from salaries | 104.41 | 93.78 |
| Accrued expenses | 690.18 | 696.84 |
| Provision for Federal and state taxes on income | 1,120.00 | — |
| Deferred income | \$ 3,951.27 | \$ 2,790.62 |
| Subscriptions, advertising unearned, and unfilled orders .. | 74,942.29 | 59,075.52 |
| Capital stock and surplus | | |
| Capital stock | | |
| Authorized and outstanding, 1,000 shares without par value | 5,000.00 | 5,000.00 |
| Paid-in surplus | 1,375.00 | 1,375.00 |
| Earned surplus (<i>deficit</i>) | | |
| Balance, beginning of year | 1,830.29 | 2,797.89 |
| Net <i>loss</i> for the fiscal year | 335.87 | 4,628.18 |
| Balance, end of year | <u>2,166.16</u> | <u>1,830.29</u> |
| | <u>\$ 83,102.40</u> | <u>\$ 66,410.85</u> |

Italics indicate red.

NOTE.—The inventories at August 31, 1948 include expenditures of \$9,829.66 representing prepublication costs of the Accountants' Index—Seventh Supplement. Subsequent sales will be applied until all costs are recovered, after which all proceeds will revert to the Endowment Fund.

AMERICAN INSTITUTE PUBLISHING CO., INC.

COMPARATIVE STATEMENT OF INCOME AND EXPENSES

Years ended August 31, 1948 and 1947

| | Year ended August 31, | |
|---|-----------------------|---------------------|
| | <u>1948</u> | <u>1947</u> |
| Income | | |
| <i>The Journal of Accountancy</i> | | |
| Subscriptions earned | | |
| Members of American Institute of Accountants | | |
| (paid by Institute)..... | \$ 28,883.54 | \$ 21,073.30 |
| Other subscribers..... | 133,506.85 | 95,403.43 |
| Advertising | 85,384.95 | 62,065.24 |
| Sales of magazines | 3,316.49 | 2,307.51 |
| Sales of bound volumes, binding, and other items (less | | |
| cost of binding)..... | 2,004.60 | 1,585.95 |
| | <u>253,096.43</u> | <u>182,435.43</u> |
| Prime costs—paper, printing and other costs | | |
| <i>The Journal of Accountancy</i> | 98,575.98 | 81,713.54 |
| Total income from magazines..... | <u>154,520.45</u> | <u>100,721.89</u> |
| Books | | |
| Sales | 22,277.44 | 13,940.33 |
| Prime costs—paper, printing, purchases, royalties and | | |
| other costs | 9,574.75 | 5,854.88 |
| Total income from books..... | <u>12,702.69</u> | <u>8,085.45</u> |
| Miscellaneous revenue | | |
| <i>The Journal of Accountancy Index</i> , net proceeds..... | 103.99 | 50.26 |
| Service charges, et cetera | 4,967.10 | 1,271.01 |
| Interest on investments | 500.00 | 250.00 |
| Total miscellaneous revenue..... | <u>5,571.09</u> | <u>1,571.27</u> |
| Total income (carried forward)..... | <u>\$172,794.23</u> | <u>\$110,378.61</u> |

(Continued on following page)

AMERICAN INSTITUTE PUBLISHING CO., INC.

COMPARATIVE STATEMENT OF INCOME AND EXPENSES (Continued)

Years ended August 31, 1948 and 1947

| | Year ended August 31, | |
|---|-----------------------|--------------|
| | 1948 | 1947 |
| Total income (brought forward)..... | \$172,794.23 | \$110,378.61 |
| Expenses | | |
| Salaries and technical services..... | 110,053.17 | 69,199.37 |
| Editorial service, material, and use of library..... | 8,500.00 | 8,500.00 |
| Rent | 6,233.64 | 6,141.67 |
| Postage and expressage..... | 12,601.14 | 10,246.71 |
| Honorarium | 2,500.00 ¹ | 2,500.00 |
| Advertising and promotion..... | 5,919.88 | 4,965.50 |
| Subscription and mailing service..... | 1,869.58 | — |
| Legal and accounting fees..... | 2,880.00 | 2,525.00 |
| Employer's contribution to cost of employees' pension plan | 4,328.49 | 1,541.99 |
| Social security taxes..... | 2,226.26 | 1,779.52 |
| Stationery, printing and supplies..... | 4,698.50 | 3,288.67 |
| Telephone and telegraph..... | 1,689.18 | 1,587.36 |
| Equipment purchased | 4,862.70 | 986.21 |
| Insurance, taxes, discounts and other items..... | 2,391.93 | 1,886.67 |
| Electricity | 879.08 | 723.68 |
| Building maintenance | 376.55 | 334.44 |
| Total expenses | 172,010.10 | 116,206.79 |
| Net income or <i>loss</i> before provision for taxes on income | 784.13 | 5,828.18 |
| Provision for taxes on income or (refund due to loss carry-back) | 1,120.00 | 1,200.00 |
| NET LOSS FOR FISCAL YEAR..... | \$ 335.87 | \$ 4,628.18 |

*Italics indicate red.*¹ See note to comparative consolidated statement of income and expenses.

AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION

COMPARATIVE BALANCE SHEET

August 31, 1948 and 1947

| ASSETS | August 31, | |
|--|--------------------|---------------------|
| | 1948 | 1947 |
| Foundation Fund | | |
| Cash | \$ 551.44 | \$ 319.68 |
| Marketable securities, at cost (value based on market quotations 1948—\$75,669.50; 1947—\$76,797.25) | 72,426.52 | 72,426.52 |
| | <u>72,977.96</u> | <u>72,746.20</u> |
| Special Research Project Fund (Committee on Selection of Personnel) | | |
| Cash | 15,110.46 | 27,799.79 |
| | <u>\$88,088.42</u> | <u>\$100,545.99</u> |
| LIABILITIES | | |
| Principal, foundation fund | \$72,977.96 | \$ 72,746.20 |
| Unexpended balance, special research project fund | 15,110.46 | 27,799.79 |
| | <u>\$88,088.42</u> | <u>\$100,545.99</u> |
| Foundation Fund | | |

STATEMENT OF PRINCIPAL TRANSACTIONS
Year ended August 31, 1948

| | | |
|---|----------|---------------------|
| Principal, September 1, 1947 | — | \$ 72,746.20 |
| Add profit on publication of "A Statement of Accounting Principles" | — | 231.76 |
| Principal, August 31, 1948 | <u>—</u> | <u>\$ 72,977.96</u> |

AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION

SCHEDULE OF MARKETABLE SECURITIES

August 31, 1948

| Par value or number of shares | Description | Rate | Year of maturity | Cost | Value based on market quotations |
|-------------------------------------|--|------|---------------------|---------------------------|--|
| Bonds | | | | | |
| \$ 3,000.00 | United States Savings Bonds, Series G.. | 2½% | 1953 | \$ 3,000.00 | \$ 2,874.00 ¹ |
| 5,000.00 | United States Savings Bonds, Series G.. | 2½ | 1955 | 5,000.00 | 4,745.00 ¹ |
| 6,000.00 | United States Savings Bonds, Series G.. | 2½ | 1959 | 6,000.00 | 5,814.00 ¹ |
| 10,000.00 | Canadian Pacific Railway Co., consolidated debenture stock | 4 | Perpetual | 9,200.00 | 9,487.50 |
| 5,000.00 | Illinois Central Railroad Co., and Chicago, St. Louis and New Orleans Railroad Co., Series A, joint first refunding mortgage | 5 | 1963 | 4,525.00 | 4,800.00 |
| 5,000.00 | New York Central Railroad Co., Series A, refunding and improvement mortgage A | 4½ | 2013 | 2,912.50 | 3,468.75 |
| 10,000.00 | Southern Pacific Co., gold bonds..... | 4½ | 1981 | 8,863.75 | 9,450.00 |
| 4,000.00 | Shawinigan Water and Power Co., first mortgage and collateral trust..... | 3½ | 1970 | 3,985.00 | 3,480.00 |
| | | | | <u>43,486.25</u> | <u>44,119.25</u> |
| Preferred Stocks | | | | | |
| 50 shares | P. Lorillard Company, 7% preferred..... | | | 7,839.55 | 7,500.00 |
| 100 shares | Pacific Gas and Electric Co., 6% first preferred.... | | | 3,403.50 | 3,400.00 |
| 62 shares | United States Steel Corporation, 7% cumulative preferred | | | 8,187.22 | 8,300.25 |
| | | | | <u>19,430.27</u> | <u>19,200.25</u> |
| Common Stocks | | | | | |
| 100 shares | Kennecott Copper Corporation | | | 3,241.00 | 5,750.00 |
| 100 shares | New Jersey Zinc Company..... | | | 6,269.00 | 6,600.00 |
| | | | | <u>9,510.00</u> | <u>12,350.00</u> |
| | Totals | | | <u><u>\$72,426.52</u></u> | <u><u>\$75,669.50</u></u> |

¹ Current redemption value.

AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION

COMPARATIVE STATEMENT OF OPERATIONS

Years ended August 31, 1948 and 1947

| | Year ended August 31, | |
|---|-----------------------|-------------|
| | 1948 | 1947 |
| FOUNDATION FUND OPERATIONS | | |
| Income from securities | \$ 3,623.30 | \$ 3,155.02 |
| Less fee of custodian of securities and other expenses.. | 205.95 | 185.67 |
| Excess of income over expenses..... | 3,417.35 | 2,969.35 |
| Contributions to American Institute of Accountants endowment fund | \$ 3,417.35 | \$ 2,969.35 |
| NOTE.—Following previous practice, the profit of \$231.76 for the fiscal year ended August 31, 1948, derived from the publication, "A Statement of Accounting Principles," has been credited directly to principal. | | |
| SPECIAL RESEARCH PROJECT FUND OPERATIONS (Committee on Selection of Personnel) | | |
| Receipts | | |
| Contributions | | |
| American Institute of Accountants | \$10,000.00 | \$10,000.00 |
| Other | 500.00 | 26,300.00 |
| Income from testing service—schools and firms..... | 3,527.90 | — |
| Sales of "Public Accounting as a Career" (net)..... | 88.70 | 201.18 |
| Interest on securities | — | 267.24 |
| Profit on sale of securities | — | 12.50 |
| Total receipts | 14,116.60 | 36,780.92 |
| Expenditures | | |
| Postage, printing, supplies and travel..... | 732.54 | 251.52 |
| Educational Records Bureau | | |
| Payroll | 16,805.45 | 15,008.92 |
| Professional services | 2,572.00 | 8,167.00 |
| Postage, supplies and travel | 4,461.48 | 13,128.22 |
| Printing of bulletins | 2,234.46 | — |
| Total expenditures | 26,805.93 | 36,555.66 |
| Excess of <i>expenditures</i> or receipts..... | 12,689.33 | 225.26 |
| Unexpended balance of contributions | | |
| Beginning of year | 27,799.79 | 27,574.53 |
| End of year | \$15,110.46 | \$27,799.79 |

Italics indicate red.

American Institute of Accountants Annual Reports
 AMERICAN INSTITUTE BENEVOLENT FUND, INC.

COMPARATIVE BALANCE SHEET

August 31, 1948 and 1947

| | Year ended August 31, | |
|---|-----------------------|--------------------|
| | 1948 | 1947 |
| ASSETS | | |
| Cash | \$ 9,131.46 | \$ 4,572.80 |
| Marketable securities, at cost, (value based on market quotations 1948—\$54,412.50; 1947—\$49,990.75) | 56,104.14 | 50,979.14 |
| | <u>\$65,235.60</u> | <u>\$55,551.94</u> |
| LIABILITIES | | |
| Principal | \$65,235.60 | \$55,551.94 |
| | <u>\$65,235.60</u> | <u>\$55,551.94</u> |

STATEMENT OF PRINCIPAL TRANSACTIONS

Year ended August 31, 1948

| | |
|--|--------------------|
| Principal, September 1, 1947 | \$55,551.94 |
| Add excess of income over expenditures | 9,683.66 |
| Principal, August 31, 1948 | <u>\$65,235.60</u> |

COMPARATIVE STATEMENT OF OPERATIONS

Years ended August 31, 1948 and 1947

| | Year ended August 31, | |
|---|-----------------------|--------------------|
| | 1948 | 1947 |
| Income | | |
| Contributions | \$11,452.35 | \$16,892.67 |
| Income from securities | 1,858.01 | 1,331.64 |
| Interest on savings accounts | 29.00 | 28.59 |
| | <u>13,339.36</u> | <u>18,252.90</u> |
| Expenditures | | |
| Assistance to members | 3,500.00 | 1,600.00 |
| Stationery, printing, and other expenses | 155.70 | 182.52 |
| | <u>3,655.70</u> | <u>1,782.52</u> |
| Excess of income over expenditures transferred to principal | <u>\$ 9,683.66</u> | <u>\$16,470.38</u> |

AMERICAN INSTITUTE BENEVOLENT FUND, INC.

SCHEDULE OF MARKETABLE SECURITIES

August 31, 1948

| Par value or number of shares | Description | Rate | Year of maturity | Cost | Value based on market quotations |
|-------------------------------------|--|------|---------------------|--------------------|--|
| Bonds | | | | | |
| \$16,000.00 | United States Savings Bonds, Series G.. | 2½% | 1958 | \$16,000.00 | \$15,392.00 ¹ |
| 10,000.00 | United States Savings Bonds, Series G.. | 2½ | 1958 | 10,000.00 | 9,690.00 ¹ |
| 6,000.00 | United States Savings Bonds, Series G.. | 2½ | 1959 | 6,000.00 | 5,868.00 ¹ |
| 5,000.00 | Canadian Pacific Railway Co., consoli- dated debenture stock | 4 | Perpetual | 5,056.25 | 4,743.75 |
| 5,000.00 | Shawinigan Water and Power Co., Series J, first mortgage and collateral trust.. | 3½ | 1970 | 4,712.50 | 4,387.50 |
| 5,000.00 | Chicago, Rock Island and Pacific Rail- road, Perpetual construction debentures | 4 | Perpetual | 5,125.00 | 5,256.25 |
| Stocks | | | | | |
| 300 shares | National Biscuit Company, common stock..... | | | 9,210.39 | 9,075.00 |
| | Total | | | <u>\$56,104.14</u> | <u>\$54,412.50</u> |

¹ Current redemption value.

Committee on By-laws

Supplemental Report

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Supplementing the annual report of the committee on by-laws, which has been presented separately and embodied in the call for the annual meeting mailed to all members of the Institute, this committee wishes to present the following:

At the last annual meeting of the Institute, held in Miami, action was taken referring to this committee for study "certain proposals for possible amendment of Article XV of the by-laws whereby it would be made easier to present to the members by mail ballot proposed changes in by-laws, either as submitted by the committee on by-laws or by petition of members."

After due consideration of the question, including all proposals placed before us, we are of the unanimous opinion:

1. That the present clause which states "Any proposal to amend the by-laws, if approved by a two-thirds vote of the members present at such meeting in person, or by proxy, shall be submitted to all of the members of the Institute for a vote by mail" should be changed to read "Any proposal to amend the by-laws, if approved by a majority vote of the members present at such meeting in person, or by proxy, shall be submitted to all of the members of the Institute for a vote by mail."

2. That the present clause which states "and by consent of the majority of the members present in person other proposals to amend the by-laws which are made by the members present in person

at the meeting may be presented," should be changed to read "by consent of two-thirds of the members present in person other proposals to amend the by-laws may be presented," in order that it would not be so easy to present a proposal for a by-law change for which the members had not had the regular 30-day notice.

3. That no change should be made which would eliminate the use of proxies in the voting by the members upon any by-law change.

4. That no change should be made which would eliminate or by-pass a vote of the members present in person or by proxy at an annual meeting, upon any proposal for a by-law change—whether presented by the committee on by-laws or by petition of the members.

These suggestions have not been included in our annual report since we have been directed only to study them and have not been directed to bring in any specific proposals for amendments to the by-laws on this point at this meeting. In the opinion of the committee on by-laws the suggestions made above should be considered by the council members and, if they deem the suggested changes to be desirable, the committee on by-laws for the ensuing year should be instructed to bring in definite proposals for changes in Article XV.

Respectfully submitted,

CHARLES W. HATTER, *Chairman*
CLEM W. COLLINS
CHARLES A. HOYLER
COLEBURKE LYONS
KARL K. MORRIS

July 26, 1948.

Committee on Budget and Finance

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on budget and finance presents herewith budgets for the fiscal year 1948-1949, covering estimated revenues and expenditures of the

American Institute of Accountants and subsidiary corporations.

A condensed consolidated budget has been distributed to the members of council in mimeograph form for their convenience in reviewing proposed appropriations.

It is estimated that the revenue from all sources will be \$764,200, an increase of \$50,169 over actual income for the past year. The increase in revenue from dues is estimated at about \$28,400; additional income from *The Journal of Accountancy* is expected to be about \$33,500 and fees from state boards of accountancy \$30,600. The sales of Institute publications for the past year amounted to over \$89,000, including revenue from sales of *Accounting Survey of 525 Corporate Reports*, but it is not expected that sales for the current year will be as great, and they are estimated at about \$51,000.

Expenditures to be appropriated total \$59,073 more than actual expenditures for the past year. The principal increase is in the payroll, and is due to recommended increases in salaries of present staff, and for additional staff, including an educational director, an assistant in the administrative department, and additional assistants in the editorial and advertising departments of *The Journal of Accountancy*. The increase in professional services is due principally to the increased cost of grading the examination papers. Other increases include the pension plan costs, administrative expenses, traveling expenses, costs of the uniform examinations, and expenses of technical and other committees.

The appropriations for the increased

production costs of *The Journal of Accountancy*, *The Certified Public Accountant*, and special reports to members amount to about \$22,000, less a decrease in the cost of books, and the yearbook, which is not being published this year, as approved by council.

The budget for the current year includes \$10,000 appropriated for the committee on the selection of personnel.

The committee has approved changes in the investments, as recommended by the United States Trust Company of New York, the details of which are included in the report of the executive committee.

Withdrawals from the contingency fund during the year were \$12,050 for professional services in connection with the Administrative Practitioners Bill, and \$5,000 appropriated for the business income research fund.

It is also recommended that the council appropriate \$5,000 from the contingency fund to be expended only by authority of the executive committee for extraordinary expenses for which no provision has been made in the budget.

The committee requests that the several budgets submitted herewith be adopted.

Respectfully submitted,

EDWARD A. KRACKE, *Chairman*
CHARLES H. TOWNS
J. HAROLD STEWART

AMERICAN INSTITUTE OF ACCOUNTANTS AMERICAN INSTITUTE PUBLISHING CO., INC.

CONSOLIDATED AND SUMMARIZED BUDGET — 1948-1949

| | Budget 1948-1949 |
|--|---------------------|
| <i>Revenue Estimated:</i> | |
| Membership dues | \$320,000 |
| Income from <i>The Journal of Accountancy</i> | 260,000 |
| Income from books sales | 15,000 |
| Income from investments | 16,700 |
| Fees from state boards of accountancy | 100,000 |
| Application fees | 1,500 |
| Miscellaneous income, including sales of Institute publications (less production costs) | 51,000 |
| Total income | <u>\$764,200</u> |

Expenditures To Be Appropriated:

| | |
|--|------------------|
| Salaries and fees for professional services: | Budget |
| Salaries: | 1948-1949 |
| Institute administration | \$ 45,145 |
| Editorial, advertising, and promotion..... | 66,652 |
| Public Information department | 20,068 |
| Research department | 34,252 |
| Educational department and board of examiners' staff..... | 26,000 |
| Library staff | 15,816 |
| State society service department..... | 7,200 |
| Committee on history | 867 |
| Accounting, purchasing, and office services..... | 82,503 |
| | <u>\$298,503</u> |
| Fees for professional services: | |
| Technical fees—preparation of examination problems..... | \$ 2,500 |
| Fees for grading examination papers..... | 100,000 |
| Auditors' fees | 2,000 |
| Professional fees public information department..... | 10,500 |
| Technical services for <i>The Journal of Accountancy</i> | 2,400 |
| Legal fees and expenses | 6,500 |
| | <u>\$123,900</u> |
| Total salaries and professional fees..... | <u>\$422,403</u> |
| Honoraria | \$ 5,000 |
| American Institute Pension Plan..... | 12,500 |
| Social security taxes | 5,800 |
| Total forwarded | <u>\$445,703</u> |
| Administrative expenses: | |
| Stationery and printing | \$ 6,050 |
| Postage and express | 25,450 |
| Telephone and telegraph | 5,960 |
| Rent | 20,000 |
| Electricity | 2,750 |
| Taxes and insurance | 4,700 |
| Supplies and equipment..... | 13,600 |
| Office alterations | 1,700 |
| Building expenses | 1,800 |
| | <u>\$ 82,010</u> |
| Traveling expenses: | |
| President | \$ 1,500 |
| Council and trial board | 10,000 |
| Staff and regional conferences..... | 5,500 |
| | <u>\$ 17,000</u> |
| Publications: | |
| <i>The Journal of Accountancy</i> | \$115,200 |
| <i>The Certified Public Accountant</i> | 12,000 |
| Special reports to members..... | 20,000 |
| Cost of books sold | 6,500 |
| Mailing service of <i>The Journal of Accountancy</i> | 5,000 |
| Advertising and promotion..... | 7,000 |
| | <u>\$165,700</u> |

| | Budget 1948-1949 |
|---|---------------------|
| Legislative and newsclipping services | \$ 1,075 |
| Library books and magazines | 4,000 |
| Expenses of uniform examinations | 13,000 |
| Annual meeting, council, and executive committee expenses..... | 8,900 |
| Technical and other committee expenses | 6,300 |
| Expense of public information department | 4,500 |
| Committee on selection of personnel | 10,000 |
| General expenses | 4,400 |
| Total expenditures | <u>\$762,588</u> |
| Estimated excess of income over expenditures for 1948-1949..... | <u>\$ 1,612</u> |

GENERAL FUND

Revenue Estimated:

| | |
|--|------------------|
| Membership dues | \$320,000 |
| Income from investments | 600 |
| Fees from state boards of accountancy | 100,000 |
| Application fees | 1,500 |
| From <i>The Journal of Accountancy</i> | 8,500 |
| Miscellaneous income (including sales of publications less production costs) | 50,000 |
| Total income | <u>\$480,600</u> |

Expenditures To Be Appropriated:

Salaries and fees for professional services:

Salaries:

| | |
|---|------------------|
| Institute administration | \$ 46,612 |
| Public information department | 15,068 |
| Research department | 34,252 |
| Education department and board of examiners' staff..... | 26,000 |
| State society service department | 7,200 |
| Committee on history | 867 |
| Accounting, purchasing, and office services | 39,125 |
| | <u>\$169,124</u> |

Fees for professional services:

| | |
|--|------------------|
| Technical fees in preparation of examination problems..... | \$ 2,500 |
| Fees for grading examination papers | 100,000 |
| Auditors' fees | 1,000 |
| Professional fees for public information department..... | 5,500 |
| Legal fees and expenses | 4,500 |
| | <u>\$113,500</u> |

Total salaries and fees for professional services \$282,624

| | |
|---------------------------------------|----------|
| Honoraria | \$ 2,500 |
| American Institute pension plan | 7,500 |
| Social security taxes | 3,000 |

Administrative expenses:

| | |
|-------------------------------|--------|
| Stationery and printing | 5,000 |
| Postage and express | 11,500 |

| | Budget 1948-1949 |
|---|---------------------|
| Telephone and telegraph | 4,000 |
| Rent | 9,232 |
| Electricity | 1,800 |
| Insurance | 750 |
| Supplies and equipment | 9,350 |
| Office alterations | 1,700 |
| Building expenses | 1,400 |
| | <u>\$ 44,732</u> |
| Traveling expenses: | |
| President | \$ 1,500 |
| Council and trial board | 10,000 |
| Staff and regional conferences | 5,500 |
| | <u>\$ 17,000</u> |
| Publications: | |
| <i>The Journal of Accountancy</i> | \$ 37,500 |
| <i>The Certified Public Accountant</i> | 12,000 |
| Special reports to members | 20,000 |
| Announcements and advertising Institute publications | 2,500 |
| | <u>\$ 72,000</u> |
| Legislative and newsclipping services | \$ 1,075 |
| Expenses of uniform examinations | 13,000 |
| Annual meeting, council, and executive committee expenses | 8,900 |
| Technical and other committee expenses | 6,300 |
| Expenses of public information department | 4,500 |
| Committee on selection of personnel | 10,000 |
| General expenses | 1,800 |
| Total expenditures | <u>\$474,931</u> |
| Add: | |
| Deficit of endowment fund | \$ 10,010 |
| | <u>\$484,941</u> |
| Excess of expenses over income | <u>\$ 4,341</u> |

ENDOWMENT FUND

Revenue Estimated:

| | |
|--|-----------------|
| Income from investments | \$12,000 |
| Contribution for library from the Foundation | 3,400 |
| Miscellaneous income (profit from sales of Accountants' index supplements) | 1,000 |
| Total Income | <u>\$16,400</u> |

Expenditures To Be Appropriated:

| | |
|---------------------------------|----------|
| Salaries of library staff | \$15,816 |
| Social security taxes | 300 |
| Administrative expenses: | |
| Stationery and printing | 50 |
| Postage and express | 250 |
| Telephone and telegraph | 160 |

Budget
1948-1949

| | |
|--|------------------------|
| Rent | 4,534 |
| Supplies and equipment | 700 |
| | <u>\$ 5,694</u> |
| Library books and magazines | <u>\$ 4,000</u> |
| General expenses | 600 |
| Total expenditures | <u>\$26,410</u> |
| Excess of expenditures over income to be absorbed by general fund... | <u><u>\$10,010</u></u> |

AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION

Revenue, Estimated:

| | |
|-------------------------------|------------------------|
| Income from investments | \$ 3,600 |
| Total income | <u><u>\$ 3,600</u></u> |

Expenditures To Be Appropriated:

| | |
|--|------------------------|
| Contribution to endowment fund—library | \$ 3,400 |
| General expenses | 200 |
| Total expenditures | <u><u>\$ 3,600</u></u> |

TO THE DIRECTORS OF THE

AMERICAN INSTITUTE PUBLISHING Co., INC.:

GENTLEMEN: The committee on budget and finance of the American Institute of Accountants submits herewith a budget for your corporation for the year ending August 31, 1949:

AMERICAN INSTITUTE PUBLISHING Co., INC.

Revenue, Estimated:

| | |
|---|-------------------------|
| Income from <i>The Journal of Accountancy</i> for subscriptions earned, advertising and sales of single copies | \$176,300 |
| Income from sales of books | 8,500 |
| Income from investments | 500 |
| Total income | <u><u>\$185,300</u></u> |

Expenditures To Be Appropriated:

Salaries and fees for professional services:

Salaries:

| | |
|---|------------------|
| Editorial, advertising, and promotion | \$ 69,152 |
| Accounting, purchasing, and office services | 44,411 |
| | <u>\$113,563</u> |

Fees for professional services:

| | |
|------------------------------|------------------|
| Auditors' fees | \$ 1,000 |
| Legal fees | 2,000 |
| Special technical fees | 7,400 |
| | <u>\$ 10,400</u> |

Total salaries and fees for professional services \$123,963

| | |
|---------------------------------------|----------|
| Honoraria | \$ 2,500 |
| American Institute Pension Plan | 5,000 |
| Social Security taxes | 2,500 |

| | Budget 1948-1949 |
|--|---------------------|
| Administrative expenses: | |
| Stationery and printing | 1,000 |
| Postage and express | 13,700 |
| Telephone and telegraph | 1,800 |
| Rent | 6,234 |
| Electricity | 950 |
| Taxes and insurance | 3,950 |
| Supplies and equipment | 3,550 |
| Building expenses | 400 |
| | <u>\$ 31,584</u> |
| Advertising and promotion | \$ 7,000 |
| Mailing service of <i>The Journal of Accountancy</i> | 5,000 |
| General expenses | 1,800 |
| | <u>\$ 179,347</u> |
| Total expenditures | \$ 5,953 |
| Estimated excess of income over expenses | <u>\$ 185,300</u> |

The Executive Committee

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The executive committee has held two meetings since the meeting of council at Asheville in May, 1948. Minutes of the meeting of June 29th at New York have been sent to members of the council. Minutes of the meeting of September 19th at Chicago will be forwarded to council members in the near future.

Bercu Case

Under authority of a council resolution, the executive committee resolved that counsel for the Institute should prepare a brief, to be filed on behalf of the Institute as a friend of the court, in the appeal of the *Bercu* case to the Court of Appeals of New York State. Suggestions as to the scope of the brief were offered by the executive committee to counsel. The Institute's brief is now in process of preparation. The case is expected to be heard in the fall of 1948.

The executive committee recommends that the council authorize payment of \$7,500 from the contingency fund toward counsel fees of \$20,000 incurred by the

New York State Society in the appeal of the *Bercu* case.

Conway Case

The executive committee received from the executive director a report of the status of the case of *Ramsay County Bar Association (Minnesota)* against *James L. Conway*, a tax practitioner, who had been accused of the unauthorized practice of law in conjunction with the preparation of a tax return. The executive committee expressed the Institute's willingness to be as helpful as possible to the Minnesota Society of Certified Public Accountants, which had retained counsel to intervene in the case on behalf of the accounting profession. Information and advice requested by the Minnesota Society have already been furnished by the Institute, and counsel for the Institute is consulting with counsel for the Minnesota Society.

Proposed Regulation of Practice Before Administrative Agencies And the Tax Court

The Administrative Practitioners Bill, HR 2657, on which committee hearings

had been held during the last Congressional session, was not reported out of the House Judiciary Committee. HR 3214, the Judiciary Codification Bill, which would have made the Tax Court a court of record, was passed with the Tax Court provisions deleted, thus leaving the Tax Court an administrative agency.

New bills were introduced in the special session of Congress held in July to regulate practice before federal administrative agencies, and to make the Tax Court a court of record. These bills were designated as HR 7100 and HR 7154 respectively. The first, introduced by Representative Gwynne, who will not return to Congress at the next session, is a modified version of the Administrative Practitioners Bill, which the Institute opposed vigorously and successfully last winter. The new version does not meet the Institute's objections to the original bill. HR 7154 contains the provision that taxpayers should be represented before the Tax Court (as a court of record), in accordance with rules of practice prescribed by such court, but that all persons who prior to September 1, 1949, were admitted to practice before the Tax Court of the United States shall be recognized by the Tax Court as entitled, "so long as they behave themselves well," to represent petitioners before that Court. These provisions are similar to so-called compromise provisions proposed to be made in HR 3214, which Institute representatives declared at hearings on that bill were not acceptable to the accounting profession.

The introduction of these two bills at the special session of Congress, when it was evident that there was no possibility of action on them, may be regarded as evidence of the intention of the sponsors of this legislation to reintroduce these measures in the 81st Congress. The executive committee recommends that at this meeting of council resolutions be adopted authorizing the executive committee and other appropriate committees designated by the president, to oppose both these bills in their present form.

The executive committee received a

statement of special fees of counsel for the Institute incurred in conjunction with the Institute's opposition to certain provisions of HR 2657 and HR 3214, in the 80th Congress. Services of counsel had been engaged for this purpose, with the understanding that special compensation, in addition to the regular retainer fee, would be provided. The special fees and expenses amounted to \$12,000. Since there was no provision in the regular budget for payment of this amount, the executive committee authorized payment from the contingency fund. Specific approval of this payment by the council is necessary.

Conference with Treasury Department

Late in May representatives of the Institute, under authority of the executive committee, conferred with Edward H. Foley (then Assistant Secretary of the Treasury, later Under Secretary), to discuss the confusion that was arising in the field of tax practice as a result of isolated uncoordinated efforts at both the national and local levels, through both legislation and litigation, to limit the activities of non-lawyers in the tax field. Mr. Foley responded favorably to a suggestion that a conference be arranged at which representatives of the American Institute of Accountants and the American Bar Association could discuss with Treasury officials, first, the implications of recent developments in this field and how they might affect the interests of taxpayers and the government; and second, whether federal regulation of all aspects of tax practice, including the preparation of returns, would be desirable and practicable.

It is planned to hold the suggested conference in October, 1948, and it is hoped that it will result in the Treasury's taking the leadership in averting chaotic conditions which threaten to develop in the field of tax practice.

Liability Insurance

The executive committee authorized the printing and mailing to public accounting firms and individual practitioners

represented in the membership of the Institute, of a study on liability insurance, prepared under the auspices of the committee on accountants' liability and liability insurance. The questionnaire accompanying the article brought returns containing information on this subject which will be of great assistance to the committee in its efforts to develop the most effective and economical insurance coverage of this type for the accounting profession.

Future Council Meetings

In order to avoid the difficulties which have been encountered recently in securing reservations at suitable meeting places for spring meetings of the council, the executive committee selected meeting places for three years in advance. The Grove Park Inn, Asheville, North Carolina, seemed to be the only suitable place available at the desired dates for the 1949 meeting, and accordingly definite reservations have been made for May 2, 3, 4, and 5. Efforts are being made to secure suitable reservations for the 1950 and 1951 meetings, the first choices being the Homestead, Hot Springs, Virginia, and the Broadmoor, Colorado Springs, Colorado, respectively.

Questionnaire on Reporting Of Corporate Income

The executive committee approved the submission of a letter, asking questions of basic importance related to the reporting of corporate income in a period of inflation, to several hundred corporation executives, economists, statisticians, bankers, investment analysts, and accountants, the purpose of which was to obtain an indication of the extent to which conventional accounting procedures were believed to be inadequate to fulfill the needs of the community when the purchasing power of the dollar was fluctuating widely. An excellent response was received to this questionnaire, and the replies have been made available to the committee on accounting procedure. In addition to the value of the replies them-

selves, this effort is believed to have two useful by-products: it served as a means of informing the financial community that the accounting profession was not oblivious to the economic and business aspects of the question, and at the same time, it served as a means of emphasizing the appropriateness of the accounting profession taking a leading part in the solution of the problem.

Proposed Amendments To the By-laws

The executive committee has considered proposed amendment of Article XV of the by-laws, submitted by petition of 56 members of the Institute for consideration at the annual meeting, which would make several important changes in the method of amending the Institute's by-laws: 1. The elimination of proxy voting of amendments to the by-laws; 2. The reduction of the requirement for approval of an amendment at the annual meeting from two-thirds of the members present to a majority; and 3. A new provision that on petition of ten per cent of the membership a proposal for amendment of the by-laws would be submitted for mail ballot of the entire membership without the necessity for approval at an annual meeting. The executive committee believes that all these changes are undesirable in that they might permit basic changes in the governing statutes of the Institute without assurance of adequate consideration of their merits. The executive committee recommends that council express its own views on the proposed amendments to the membership of the Institute at the annual meeting for their information.

The executive committee has also approved a proposal of the board of examiners that amendments to the by-laws be adopted which would create a committee on admission to assume the duty, now imposed on the board, of reviewing applications for admission to the Institute, thus leaving the board of examiners free to devote full attention to its major task of administering the uniform CPA examination.

Membership Changes

A number of members, dropped for non-payment of dues last spring, have been reinstated in accordance with the provisions of the by-laws. A summary of membership changes for the entire fiscal year 1947-48, is as follows:

| | |
|--|--------|
| Membership at the beginning of year..... | 10,954 |
| Deaths | 91 |
| Resignations | 82 |
| Dropped for non-payment of dues.... | 103 |
| Total losses | 276 |
| Reinstated | 43 |
| New admissions | 1,526 |
| Total increases | 1,569 |
| Membership at August 31, 1948..... | 12,247 |
| Net gain | 1,295 |

The great majority of losses through resignation and non-payment of dues were of members not engaged in public accounting practice. Deaths of members since submission of the executive committee report in May, 1948, were as follows:

| | |
|-------------------------|-----------------------|
| William O. Atwood | Gould McIntosh |
| Shepard E. Barry | Norman McLaren |
| Edgar P. Bergeron | Karl F. McMurry |
| William R. Bow | John T. Madden |
| C. Everett Boynton | Wilmet A. Martel |
| Edward G. Bradford | James Munro |
| John W. Buxton | Lormor Allen Pearman |
| Donald S. Carter | Bertram F. Reeves |
| Elza B. Craig | Robert B. Rogers |
| George T. Durham | Milton B. Rose |
| Leo P. Gallagher | Aaron A. Ross |
| George Geekie | Adrian V. Seay |
| A. C. Gove | Glenn P. Smith |
| N. Paul Hahn | Oscar C. Strand |
| H. A. Hathaway | Homer N. Sweet |
| Clarence E. Hauser, Jr. | William G. Thumm, Jr. |
| John C. Hilliard | Charles W. Todd |
| Carl C. Jamison | George T. Van Eps |
| Cyrus Kane | H. T. Westerman |
| T. H. Lawrence | Lawrence H. Willig |
| John MacLetchie | Ernest B. Wynn |
| William J. McGrath | |

The executive committee adopted the following resolution to record its sorrow at the death of Homer N. Sweet, a member of the executive committee:

"Resolved, That the executive committee of the American Institute of Accountants hereby record its deep sorrow at the loss of Homer N. Sweet, a member of this committee, a former vice president

of the Institute, a former chairman of its committees on professional ethics, co-operation with the Securities and Exchange Commission, investment trust accounting, and other important subjects, and a past president of the Massachusetts Society of Certified Public Accountants, and

"Resolved, That the executive committee record on behalf of the Institute and the entire accounting profession in the United States, its sense of gratitude for the major contributions to the advancement of the profession made by Mr. Sweet, as well as for his personal demonstration of the professional qualities of which certified public accountants are most proud—integrity, competence, and industry; and

"Resolved, That this resolution be presented to the Council of the Institute for inscription in the official minutes of that body, and that copies be sent to Mr. Sweet's family and professional associates."

Council is requested to approve this resolution so that it may be inscribed in the permanent minutes of the council.

Examinations

The executive committee reported to the council at the May meeting the serious budgetary problems raised by the increased losses suffered by the Institute in conducting the uniform CPA examination service. For the entire fiscal year, the net loss to the Institute was estimated at \$36,500.

The executive committee has approved the action of the board of examiners in increasing fees payable by state boards for the examination service, including grading, from \$10 to \$15 for all subjects, and from \$5 for a partial examination in one or more subjects to \$3 for each subject, commencing with the November, 1948, examination.

The executive committee has also approved certain changes in the grading procedure proposed by the board of examiners, which it is hoped will reduce expense.

Educational Director

The executive committee considered the recommendation of the committee on edu-

cation, referred by the council to the committee, that an educational director be employed as a full-time member of the Institute's staff, the executive committee being authorized to carry out the recommendation if finances of the Institute permitted. After discussion, it was the sense of the executive committee that the educational program of the Institute was a most important project, and the executive director was authorized to study the situation with a view to finding a suitable incumbent for the position of educational director as soon as possible, with the understanding that supplementary financing of the project would be undertaken if necessary.

Headquarters

In view of the inadequacy of the present headquarters office to accommodate the enlarged staff of the Institute, and also the fact that purchase of the building by a corporation for its own occupancy requires the Institute to move its headquarters at the expiration of its lease in 1950, it was the sense of the executive committee that serious effort should be made to find suitable new quarters for the Institute staff at as early a date as possible. The new landlord, who desires the Institute to move as soon as possible, has suggested a willingness to compensate the Institute for the loss which would be incurred in moving from the present low cost space to new space at higher rental. However, the new quarters will have to be larger than the quarters presently occupied, so that there may be expected an immediate and substantial increase in annual rental, and a further and even larger increase in 1950. The present rental is \$17,000, and current rates may be expected to increase to about \$50,000 in 1950. This will also raise a budgetary problem.

Group Life Insurance Plan

The executive committee has received a report on the status of the group life insurance plan sponsored by the Institute last year. The plan is operated in accordance with a trust agreement by trustees

who are members of the Institute. Changes in the trust must have the approval of the executive committee. Experience of the first policy year indicates very wide participation by accounting organizations represented in the membership of the Institute. The total number of participating firms or practitioners was 794, total number of lives insured was 5,543, and the face value of the amount of the coverage purchased was \$26,618,500. The agreement provides for the entrance of additional participants to the plan during the month following the anniversary date, October 1, 1948.

Legal difficulties arising from peculiar statutory provisions of one state have made it necessary that the plan be amended so as to exclude participation of members in that state.

Trial Board

The executive committee received from the committee on professional ethics a report that a *prima facie* case had been established showing violation of the by-laws of the Institute on the part of a member. The executive committee resolved that the said member be summoned to appear in answer at the next meeting of the trial board, to be held at the Palmer House, Chicago, Illinois, September 23, 1948.

The Journal of Accountancy

The executive committee approved an increase in the subscription price of *The Journal of Accountancy* from \$5 to \$6 for regular subscribers, and from \$2.50 to \$3.00 for student subscribers. This change also had the approval of the committee on publication.

International Cooperation

The executive committee approved plans for a meeting of representatives of English, Canadian, and American accounting societies, to be held about the time of the Institute's annual meeting.

Accounting for Defense Contracts

The executive committee approved a suggestion of the president that a new committee be appointed to be known as

the committee on accounting for defense contracts, which would be available to cooperate with procurement agencies of the government in the drafting and administration of regulations involving determination of costs.

Securities

The executive committee approved the sale of:

\$50,000 United States of America, 1½% Treasury Certificates of indebtedness Series E-1949, dated 6/1/48, due June 1, 1949 at 100.014 net. \$50,007.20

Respectfully submitted,

GEORGE D. BAILEY, *Chairman*

JOHN L. CAREY, *Executive Director*

September 19, 1948.

Committee on Membership

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: In many organizations membership promotion constitutes a major activity on which a substantial amount of the association's energy and resources are expended. The Institute's committee on membership has, over the years, carried out its effective program quietly in the background.

It is well known that an organization's advancement must be brought about in large part by the continued entrance of new members, young men with vision and vitality to meet the problems that confront the group. The Institute's committee on membership during the past year has followed the dignified procedure adopted by former committees of extending a personal invitation to each certified public accountant who appears to meet the high admission requirements of the by-laws. This conservative policy has not given rise to surges in the flow of new applications or temporary jumps in membership that might arise out of high pressure membership campaigns. The policy has, largely through the efforts of the 171 members of the committee on membership, led to a strong and healthy growth. The remarkable stability in the Institute's membership is due in some measure to the sound membership promotion policies that are followed. Losses in membership from all causes including death and adversity were less than 3 per cent of the membership last year. Your committee recognizes that the primary

reason for this enviable stability is due to the work of the Institute's officers and committees and a keen appreciation by the individual member of the services, both direct and indirect, that are being rendered to professional accountants and the public by the Institute.

During the fiscal year ended August 31, 1948, a total of 1,747 applications for membership were received. This represented an increase of 478 applications over the number filed during the prior fiscal year. Six applications for admission as international associates have been received. The Institute's membership, as of August 31, 1948, was 12,251, representing a net increase over last year's membership of 1,296 members.

While the membership figures are gratifying, the committee on membership is not complacent. The Institute's public relations department has prepared a pamphlet telling of the Institute's activities which will soon be sent to certified public accountants who are not members of the Institute. The number of new CPA certificate holders is increasing rapidly and it is important that a very high percentage of those who can meet the by-law requirements for admission, become members of the Institute. To this end the continued cooperation is sought of the Council and of the entire membership in the important work of the committee on membership.

Respectfully submitted,

JAY A. PHILLIPS, *Chairman*
September 13, 1948.

Committee on Public Information

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The process of expanding the public information program of the Institute along the lines approved by Council last year has now been carried to a point which permits some evaluation of results and future plans.

The fact that almost every activity of the Institute influences and is affected by the public relations of the accounting profession has become more and more apparent. This last year, more than ever before, the position of the profession has been a matter of vital importance to other groups in the American economy, and it has therefore become increasingly necessary that the activities of certified public accountants should be widely known and understood.

As one example, there has been extended discussion among business executives, economists, financial experts, and government officials of the position taken by the Institute's committee on accounting procedure in Bulletin No. 33, "Depreciation and High Costs." The public information department has therefore worked closely with Institute officers, the committee on accounting procedure, and the research department in plans to obtain public understanding and acceptance of the committee's past and proposed recommendations. Some of these activities will be outlined later in this report.

The success of the Institute in combating federal legislation which would have restricted the long-established position of certified public accountants in tax practice was also to a very considerable extent a public relations activity. The public information department has been charged with a large part of the responsibility for stimulating expressions of opposition to unfavorable legislation, both by members of the Institute and by other interested groups.

Similarly, the public information department has participated in the work of the committee on selection of personnel

in connection with the aptitude and achievement testing program, the committee on auditing procedure in plans for obtaining wider understanding and acceptance of the auditor's certificate, and the committee on state legislation in providing assistance to the various state societies which have had or may have legislative problems.

In short, public relations has become firmly established as one of the major staff functions of the Institute. Your committee is satisfied that this attention to the public aspects of all Institute activities is, and will continue to be, essential to maintaining the position which the accounting profession has achieved, and promoting a healthy growth in the future.

Since the interim report of the committee on public information was submitted to Council last May, the basic material for the expanded public information program of the Institute has been completed and distributed. This basic material consists of the following things:

1. *The Public Relations Program of the American Institute of Accountants.* An internal document approved by the committee as a policy guide and distributed to all state societies.

2. *How to Have Good Public Relations.* A pamphlet on public relations techniques and methods designed primarily for use by members of information committees of the state groups.

3. *Public Opinion and the Accounting Profession.* An exposition of the meaning of public opinion and public relations to the accounting profession as a whole, and to the individual certified public accountant; prepared as a small booklet and sent to all members of the Institute.

4. *The American Institute of Accountants—A Memo To Certified Public Accountants.* A leaflet about the Institute sent to all certified public accountants who are not members, and for distribution to successful candidates in forthcoming CPA examinations.

5. *Legislative Kit—1949.* A collection of how-to-do-it material designed to help state societies in handling their legislative problems.

This material outlines the principal public relations activities of the Institute and includes practical suggestions for carrying them out. While some of it may be revised from time to time, we expect that it will provide a solid basis on which to build for several years to come.

Good public relations for the accounting profession depend upon successful coordination of the activities of the Institute, the state societies, and the individual certified public accountant. Your committee believes that the plan of coordination developed in these five documents is entirely sound and expects that future public information activities will fit naturally into this broad general pattern.

During the past year intensified public information activities have gone ahead within this general framework, even while the basic material was being developed. The current activities for the year have included a substantial amount of time spent on national and state legislation; speeches; press releases, radio scripts, and magazine articles; public relations columns in *The Certified Public Accountant*; field trips; planning and publicity for regional conferences; and special projects, including specific assistance on request to state societies.

Legislation

The public information department played an active part in the plans and activities which were successful in preventing the enactment by the 80th Congress of legislation which would have been harmful to certified public accountants.

The Institute's stand against HR 2657, the Administrative Practitioners Bill, was publicized at the time of public hearings in January. The position taken by the Institute at that time was reinforced by suggested letters to Congressmen from members of the Institute and from other

interested organizations. The bill remained unreported when Congress finally adjourned.

HR 3214, the codification of the U. S. Judicial Code, presented a more difficult problem because the provisions which might have resulted in barring CPAs from practice before the Tax Court were only one part of a generally desirable bill. The resolution against these provisions adopted by Council at the May meeting was successfully publicized and followed up by an intensive letter-writing campaign. This campaign, together with personal contacts by Institute members, generated enough opposition to insure a fight on the Senate floor if the bill had been reported with a provision making the Tax Court a court of record, and without a specific safeguard of the rights of qualified non-lawyers to practice before the court. As a consequence, the Senate Judiciary Committee deleted the Tax Court provisions from the bill before it was passed, and the rights of CPAs to practice before the court remained unchanged.

Material prepared during the winter for individual state societies which had legislative problems has now been expanded into the comprehensive legislative kit mentioned in the beginning of this report. This material includes a basic statement covering the historical development of the accounting profession and the reasons for maintaining high professional standards in the CPA examination.

Speeches

More than seventy individual requests have been received for each of two pattern speeches prepared by the department during the year: "What Is Income?" and "What Accounting Means To You." These speeches, with appropriate modifications to suit local requirements, were given by individual Institute members in many parts of the country to Kiwanis and Rotary Clubs and similar organizations.

The department also assisted several of the Institute officers and committee chairmen in assembling material for

speeches, and prepared two radio scripts which were used during the year.

Four speeches by the public relations counsel were arranged during the year: before the New York State Society, the Maryland Association, the accounting conference at Harvard University (arranged by the Massachusetts Society), and the Boston meeting of the National Association of Cost Accountants. All of these addresses were concerned with the techniques of public relations as they apply to the accounting profession.

As noted in our interim report, the department operates a continuing Speakers Bureau filling requests for Institute officers and leading certified public accountants to speak before other organizations, and arranging schedules of speaking engagements for the officers and Institute staff.

Publicity

The principal publicity activities of the year were covered in our May report. Since that time, the public information department has prepared releases resulting in good newspaper coverage for the Council meeting at Asheville, the nominations for Institute officers for the 1948-49 term, the Elijah Watt Sells award winners, and a number of individual speeches by officers and members of the Institute.

Several articles on the natural business year prepared by the department have been published in trade magazines for various industries.

A pamphlet with photostats of press releases and publicity results was sent to members of Council shortly before this meeting.

The department arranged to reprint an article on "How To Read An Annual Report," originally published in *The Lamp* (Standard Oil Company of New Jersey). Copies were sent to firms having members in the Institute, and thus far over three thousand copies have been ordered for distribution by firms and other organizations. This public relations activity seems likely to break even, and may possibly show a small profit.

Field Trips

To meet the need expressed by state societies for direct practical help on their public relations problems, a number of field trips have been made. Most of these were arranged in connection with travel on other business by the public relations counsel. These have resulted in field conferences with officials of societies in eight states: California, Georgia, Illinois, Maryland, Minnesota, New York, New Jersey, and Tennessee.

A major purpose of these trips has been to make the state societies more fully aware of the public relations facilities offered by the Institute, and to offer Institute help to the state societies in handling their own day to day problems.

Regional Conferences

The department cooperated in program plans and publicity for the successful Middle Atlantic States Accounting Conference, held under the joint sponsorship of seven state societies and the Institute at Myrtle Beach, South Carolina, July 12th to 14th last. In the course of the conference, the assistant director of the department operated a press information bureau. Its news reports were carried widely in southern newspapers, and by the Associated Press and the United Press. The department cooperated in securing speakers for the conference, and aided in attendance development.

Currently, the public information department is working with the general committee for the Mountain States Accounting Conference, to be held in Phoenix, Arizona, November 8th to 10th next. Cooperation so far has extended to help the committee in devising the conference program, and in securing speakers. As in the case of the Middle Atlantic States Accounting Conference, the department will operate a press bureau at the Phoenix meeting, and will help actively in building conference attendance.

Cooperation With State Societies

In June of this year, the state society service department was placed under the supervision of the director of public information. The state society service activities continue, however, as a separate department of the Institute, and will be reported on by another committee. The public information committee approves this closer coordination of public information and state society service activities, since the success of the total public relations program depends to a large extent on the public relations activities of the state societies. A staff assistant has been engaged to permit the continuance of the state society service work without interference with the activities of the public information department.

Inquiry on Depreciation

As a special activity during the summer, the public information department has assisted in the preparation and handled the distribution and reports of a special inquiry designed to obtain information about the attitudes of business executives, and others dealing with financial data, toward the accounting treatment of depreciation. The primary purpose of this inquiry was to discover whether business executives generally agreed with those who had been urging a change in accounting methods to reflect the recent price increases in the calculation of depreciation charges. A preliminary report on this inquiry has recently received wide publicity. The tabulation of results and preparation of the report constituted a major project for the department during the summer months.

1948-49 Plans

The plans approved by your committee for the coming year will have three major points of emphasis:

1. Dissemination of publicity and development of public relations activities through state societies and chapters to the greatest possible extent.

2. Development of the theme that accountants occupy a key position in promoting better public understanding of the operations of American business.

3. Encouragement of community and public service by certified public accountants through their national, state, and chapter organizations, and as individuals.

This emphasis on wider public understanding of the significance of accounting and the accountant in our economy, to be attained as far as possible through state, local, and individual action, is a further recognition that good public relations are of the very first importance to the whole accounting profession.

Accounting is a professional service to others; it cannot exist in and of itself. The opportunities for service enjoyed by the profession will therefore be in direct proportion to public acceptance of its usefulness.

The Council recognized last year that this public acceptance was not so broad as we should have liked to believe, and that active steps should be taken to improve the situation. In reviewing the activities of the past year and the plans which have been formulated for the future, your committee is satisfied that we are making good progress in the achievement of the broader public understanding which is our goal.

Respectfully submitted,

J. HAROLD STEWART, *Chairman*
WILLIAM M. BLACK
JOHN C. MARTIN
N. LOYALL McLAREN
GEORGE E. PERRIN

August 31, 1948.

Committee on Publication

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: This is the present state of
The Journal of Accountancy.

Circulation

The circulation of *The Journal of Accountancy* in September, 1948, is 51,000 copies. This compares with 42,000 in September, 1947, and 32,000 in September, 1946, 24,000 in 1945, and 22,000 in 1944. Revenues from circulation in the fiscal year ending August 31, 1948, were \$162,000, against \$116,000 the previous year. This is an increase of 39.4 per cent. The subscription price was raised from \$4 (at which figure it had stood since 1904) to \$5 in April, 1947, and will be increased to \$6 per year in September, 1948. Single copy prices were increased from 40 to 50, and to 60 cents respectively.

Advertising

Advertising revenues for the fiscal year ending August 31, 1948, were \$85,000, compared to \$62,000 in 1947 and \$45,000 in 1946. A new schedule of advertising rates will become effective on January 1, 1949, increasing the basic page rate to \$400 per page. A new advertising salesman has been added to the staff, the more fully to exploit the opportunities offered by the increase in circulation and general influence of *The Journal*.

Costs

Printing costs were increased approximately 25 per cent in November, 1947. While this is a substantial and burdensome increase, it is not out of line with conditions in the printing business generally. Other printers have been approached, though none has been found who could promise an adequate quality of work at any considerable saving. A change in binding from sewing to side-wire is

saving \$800 per month, and certain other mechanical revisions are being worked out to save an additional several hundred per month. However, overhead of all kinds continues to increase, the net result of which is an increase in costs not dissimilar to that in business generally.

Mailing

Addressing of magazines and maintenance of lists has been let on a contract basis to a company in New York which makes a business of this work, with a saving of some \$6,000 to \$8,000 per year. Performance under this contract gives promise of improvement over the job that was done before.

Research

Editorial research was carried on through the year by the Eastman Research Organization. Two surveys were made, one on the September, 1947, issue, and one on April, 1948. These studies provide valuable guides to the behavior of readers, their interests, and the manner in which *The Journal* can be most useful to them.

Staff

We are contemplating the addition of a new editorial staff assistant, whose function it would be to rewrite, condense, and make fit for publication some part of the considerable amount of available material of value to the profession which is not now being printed.

Respectfully submitted,

EDWARD B. WILCOX, *Chairman*
MARQUIS G. EATON
RUSSELL H. HASSLER
JOEL HUNTER, JR.
J. K. LASSER
ALDEN C. SMITH
DONALD L. TROUANT

September 16, 1948.